

SUBMISSION ON

Inquiry into banking competition

25 September 2024

To: Finance and Expenditure Committee

Name of Submitter: Horticulture New Zealand

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OVERVIEW

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Our submission

Horticulture New Zealand (HortNZ) thanks the Finance and Expenditure Committee for the opportunity to submit on the Inquiry into banking competition and welcomes any opportunity to continue to work with the Finance and Expenditure Committee and to discuss our submission.

HortNZ could not gain an advantage in trade competition through this submission.

HortNZ wishes to be heard in support of our submission and would be prepared to consider presenting our submission in a joint case with others making a similar submission at any hearing.

The details of HortNZ's submission and decisions we are seeking are set out in our submission below.

HortNZ's Role

Background to HortNZ

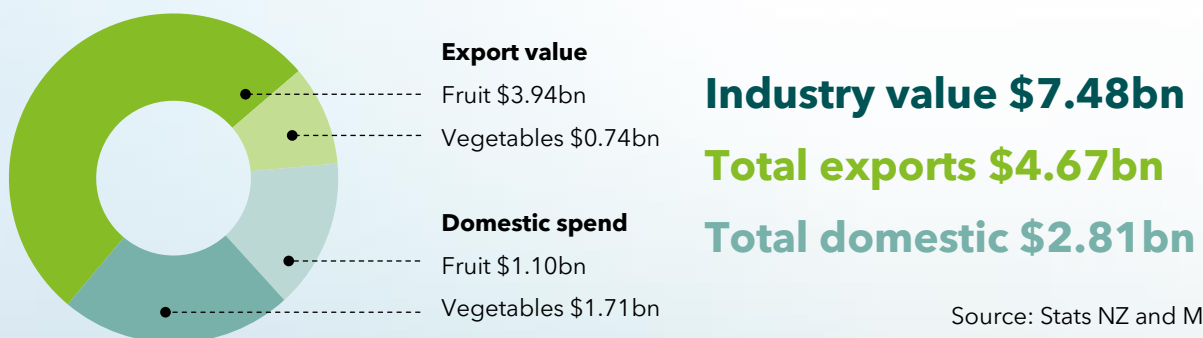
HortNZ represents the interests of approximately 4,200 commercial fruit and vegetable growers in New Zealand who grow around 100 different fruits and vegetables. The horticultural sector provides over 40,000 jobs.

There are approximately 80,000 hectares of land in New Zealand producing fruit and vegetables for domestic consumers and supplying our global trading partners with high quality food.

It is not just the direct economic benefits associated with horticultural production that are important. Horticulture production provides a platform for long term prosperity for communities, supports the growth of knowledge-intensive agri-tech and suppliers along the supply chain, and plays a key role in helping to achieve New Zealand's climate change objectives.

The horticulture sector plays an important role in food security for New Zealanders. Over 80% of vegetables grown are for the domestic market and many varieties of fruits are grown to serve the domestic market.

HortNZ's purpose is to create an enduring environment where growers prosper. This is done through enabling, promoting and advocating for growers in New Zealand.



Submission

1. Horticulture and Banking

The success of fruit and vegetable-growing businesses, like all businesses, relies on the banks and access to capital. Some crops have small margins, while others have healthy profits. Overall, the horticulture industry has the highest rate of return per hectare of any primary sector activity.

Horticulture has a large potential for growth. Global demand for New Zealand produce has not been saturated. For instance, kiwifruit represents less than 1% of the global fruit bowl but is still rising in popularity in key markets.¹ Zespri estimates that license for 450-800 hectares of SunGold and RubyRed™ kiwifruit will be released per annum between 2026 and 2028 (including some transition from green kiwifruit).² Crops like cherries,³ blackcurrants⁴ and onions⁵ are all finding new value streams. The Aotearoa Horticulture Action Plan, a strategy that is co-owned by Government, Industry, Science and Māori is facilitating our sector's goal of doubling exports by 2035.⁶

While profits are positive in the long-term, all crops have variable returns. Adverse weather events, year-to-year variations in weather and changing market conditions mean it's much more difficult to predict annual returns. Therefore, a long-term risk profile is best suited to the sector.

Banks classify horticulture as a "high-risk" activity, leading the banks to impose higher interest rates, so it's more expensive for growers to access capital. Hidden fees also add costs for growers. This means that it's more difficult for growers to borrow to upgrade their equipment or invest in innovation.

The financial balancing act of running a horticultural business is made more tenuous by disappearing rural banking services. **Rural branches and banking relationship managers with horticultural expertise** are important for growers to access services provided with an understanding of the intricacies of the horticultural business model.

As banks progress environmental and social governance (ESG) objectives, standards used to evaluate horticultural business need to be appropriate for the horticultural industry. The banks should **recognise existing environmental and social practice standards** for horticulture through industry assurance programmes that are benchmarked to market and regulatory requirements for domestic and export sales.

Fruit and vegetable growing are low-emissions activities. In this sense, **horticulture is a low-risk activity from an environmental perspective**, which should be incorporated

¹ [Zespri Five-Year Outlook. December 2023.](#)

² [Zespri Five-Year Outlook. December 2023.](#)

³ [Eden Orchards](#)

⁴ New Zealand Blackcurrants. "[Blackcurrant Benefits](#)".

⁵ Onions NZ. Humble to Hero project.

⁶ HortNZ. [Growing Together 2035: Aotearoa Horticulture Action Plan - Strategy](#). February 2023.

into the banks' risk profiling as they commit to ESG goals. Financing should be set up to enable low emissions activities like horticulture if banks are to achieve their emissions goals.

The following sections respond to the Terms of Reference for the Inquiry.

2. The state of competition in banking

The effect of any bank lending policies relating to borrowers' emissions that result in additional lending costs and/or lending restrictions.

Given that horticulture is a low emissions activity, and the banks have made commitments to drive emissions reductions, we would expect to see lending benefits for horticulture. So far, that does not seem to be the case unless a grower has a particular "green" project that is eligible for a sustainability-linked loan. This type of loan rewards emissions improvements, but the overall low emissions nature of horticultural businesses is not recognised with benefits in interest rates.

3. Impact of the regulatory environment on competition and efficient access to lending

Any impact on the allocation of bank lending by sector, such as business, rural, and residential mortgage.

Rural lending requires higher upfront capital than residential mortgages due to the higher weighted risk. New entrants to the horticulture sector find it difficult, if not impossible, to access bank loans in their first few years. New growers have to rely on personal lending from family, borrowing against house mortgages or taking Tier 2 lending with much higher interest rates. For those who want to buy farmland, they need a far higher percentage of equity than they would need for a house mortgage. Owning, rather than leasing, growing land means that growers can establish a long-term relationship with the land and take the time needed to build up soil health and other environmental improvements.

In order for the Government to achieve its goal of doubling exports by 2035 and meeting our climate change commitments, food and fibre businesses will need lending to invest in the upgrades and innovation required to scale-up their value. Some countries have a lower risk-weighted asset requirement for the agricultural sector to encourage lending.

Determine how and to what extent the RBNZ's capital requirements and credit risk models influence lending rates (see emphasis in Rural Banking section).

RBNZ requires banks to hold more capital against rural loans than other types of lending, which makes those loans more expensive to rural businesses.

4. Rural banking

Determine how and to what extent the RBNZ's capital requirements and credit risk models influence lending rates to agriculture and horticulture businesses.

Banks classify horticulture as a “high-risk” activity, leading the banks to impose higher interest rates, so it's more expensive for growers to access capital. This is influenced by the higher capital requirements for banks for riskier loans. Hidden fees also add costs for growers. There are limited incentives for banks to offer competitive rural products and packages. This means that it's more difficult for growers to borrow to upgrade their equipment or invest in innovation.

Banks need more understanding of the seasonal nature of horticulture, which means that income is only received at certain times of year – and sometimes only once annually for export crops. The cycle of growing may mean that a business needs a loan to buy seeds in spring – when income is low – that will be paid off when the crops are ready for sale. The financial industry's understanding of the horticulture sector is being lost as rural banks close and the number of rural relationship managers and agribusiness experts declines with the shift to online banking.

Ascertain whether the RBNZ's approach to greenhouse gas emissions risk, including risk of government policy, has and is likely to result in further increases in lending rates to the agriculture and horticulture sectors.

Fruit and vegetable growing are low-emissions activities, contributing only 1.1% of New Zealand's total greenhouse gas emissions.⁷ As such, the RBNZ's approach to greenhouse gas emissions risk should not result in increases in lending rates to the horticulture sector if they recognise that horticulture is the lowest emissions way to produce food in New Zealand.

If there is a broader goal of using banking to manage greenhouse gas emissions risk, we need to be asking how finance can enable low emissions sector like horticulture, not just looking at barriers created by accounting for sustainability.

There may be some impact of accounting for emissions risk on greenhouse growers, some of whom still use fossil fuels to heat their greenhouses. The cost of decarbonisation is infeasible without Government support for the transition or low-interest loans, made more difficult by the disestablishment of the Government Investment in Decarbonising Industry (GIDI) fund.⁸ Sustainability-linked loans may help with energy efficiency improvements and fuel switching, but the cost of these projects is still out of reach for most small to medium-scale indoor growers.

⁷ StatsNZ. [“Greenhouse gas emissions \(industry and household\): Year ended 2022”](#). 30 May 2024.

⁸ HortNZ. [“Submission on Climate Change Response \(Emissions Trading Scheme Agricultural Obligations\) Amendment Bill”](#). 26 July 2024.

Ascertain whether bank environmental and sustainability policies have or are likely to result in further increases in lending rates to the agriculture and horticulture sectors.

When banks evaluate horticultural businesses against ESG objectives, it is important that they use transparent and industry-appropriate standards. The Aotearoa Circle, MPI and the major banks of New Zealand developed the Sustainable Agriculture Finance Initiative (SAFI) in 2021 as guidance to achieve this aim.⁹ New Zealand's banks should use this guidance as a standardised approach for assurance, rather than making their own standards and duplicating existing work. ESG standards should **recognise horticulture's existing and trusted industry assurance schemes**, including the New Zealand Good Agricultural Practice (NZ GAP) Environment Management System (EMS)¹⁰ and Social Practice add-ons, which are benchmarked to market and regulatory requirements for domestic and export sales.¹¹

As discussed above, horticulture is a low emissions activity, and plant production even sequesters carbon. Growing is an efficient use of resources compared to other land uses. Cherries, for instance, have the potential to earn 40 times as much money per mm water applied per hectare compared to dairy.¹² This land and resource efficiency reduces overall impacts on the environment. In this sense, **horticulture is a low-risk activity from an environmental perspective**, which should be incorporated into the banks' risk profiling as they commit to ESG goals.

HortNZ has heard that in ESG evaluation, the banks tend to compare business to business, rather than industry to industry. Instead of recognising that horticulture is inherently positive for our climate goals, they focus on what further improvements can be made to an already emissions-efficient production system. While there is always more that our industry can do to further environmental goals, horticulture's overall place in the emissions reduction story should be better understood and recognised.

Access to banking services, including access to cash services, especially in rural areas.

The closure of rural bank branches and the move to online systems makes it more difficult to access information and banking services, particularly for growers with less digital literacy¹³. Limited ATM machines in rural areas and the time it takes to service them means cash is less accessible as well.¹⁴

⁹ The Aotearoa Circle. "[Sustainable Agriculture Finance Initiative \(SAFI\): Phase One Guidance for Sustainable Agriculture Finance for Crops \(perennials and non-perennials\)](#)". July 2021.

¹⁰ NZGAP. "[Environment Management System \(EMS\) Add-on](#)".

¹¹ NZGAP. "[Social Practice add-on](#)".

¹² Ford, Stuart. "[Statement of Evidence of Stuart Ford on Behalf of Horticulture New Zealand \(Economics\)](#)". 28 June 2023 (p. 13); [Fresh fruit from freshwater \(arcgis.com\)](#)

¹³ [Marshall, Jessica. "Stop closing rural banks!" 04 June 2024. Rural News.](#)

¹⁴ Commerce Commission New Zealand. "Personal banking services: Final competition report - Abridged version". 20 August 2024. (p. 15)