

BEFORE ENVIRONMENT SOUTHLAND

IN THE MATTER of the Resource Management Act 1991

AND

IN THE MATTER of Lorneville Processing Plant Resource Consent Applications (APP-20158595)

**STATEMENT OF EVIDENCE OF MICHAEL COPELAND
ON BEHALF OF ALLIANCE GROUP LIMITED**

4 July 2016

**ANDERSON LLOYD
LAWYERS
DUNEDIN**

Solicitor: S W Christensen

Level 10, Otago House
Cnr Moray & Princes Street,
Private Bag 1959,
DUNEDIN 9054
Tel 03 477 3973
Fax 03 477 3184

QUALIFICATIONS AND EXPERIENCE

- 1 My full name is Michael Campbell Copeland.
- 2 I hold a Bachelor of Science degree in mathematics and a Master of Commerce degree in economics.
- 3 I am a Consulting Economist and Joint Managing Director of Brown, Copeland and Company Limited, a firm of consulting economists, which has undertaken a wide range of studies for public and private sector clients in New Zealand and overseas.
- 4 During the period July 1990 to July 1994, I was a member of the Commerce Commission and between 2002 and 2008 I was a lay member of the High Court under the Commerce Act. Prior to establishing Brown, Copeland and Company Limited in 1982, I spent six years at the New Zealand Institute of Economic Research and three years at the Confederation of British Industry. A summary of my curriculum vitae is attached as **Appendix 1**.
- 5 With respect to the Resource Management Act 1991 (**RMA**), I have prepared evidence for clients covering a number of development projects and policies. A selection of these is listed in my curriculum vitae in **Appendix 1**.
- 6 I have been involved in the following relevant investigations and studies:
 - (a) The preparation of a report entitled "Renewal of Resource Consents to enable Continued Operations of the Alliance Group Limited's Lorneville Meat Processing Plant: Assessment of Economic Benefits", and dated 6 June, 2015. This report was included as Appendix N to the Assessment of Environmental Effects.
- 7 In preparing this evidence I have reviewed:
 - (a) The statements of evidence of Frances Wise, Danny Hailes and John Kyle; and
 - (b) The Section 42A Officer's Report.
- 8 I have read and agree to comply with the Code of Conduct for Expert Witnesses (Environment Court Practice Note 2014). This evidence is within my area of expertise except where I state that I am relying on facts or information provided by another person. I have not omitted to consider

material facts known to me that might alter or detract from the opinions that I express.

SCOPE OF EVIDENCE

- 9 After a summary, my evidence addresses the following matters:
- (a) The background to the Lorneville Plant operations;
 - (b) The relevant sections of the RMA;
 - (c) The Invercargill City and Southland Region's economies;
 - (d) An assessment of the economic benefits from renewing the consents;
 - (e) The Council Officer's Section 42A Report; and
 - (f) My conclusions.

EXECUTIVE SUMMARY

- 10 Trade enables New Zealand to specialise in the production of certain products in which New Zealand has a comparative advantage enabling production surplus to domestic consumption to be exported. The production of meat and other animal products is an area in which New Zealand has comparative advantage.
- 11 The Lorneville plant is the largest of the Alliance Group Limited's (**Alliance's**) meat processing plants accounting for approximately half of Alliance's processing capacity. It has a replacement cost of \$252 million. In the year to 30 September 2015, the plant produced meat and meat products, pelts and wool having a value of \$328 million. It made payments for stock of \$273 million, largely to Southland and Otago farmers. The plant employs 165 fulltime salaried staff and 1,702 seasonal staff, pays \$75 million per annum in wages and salaries and spends around \$18 million per annum on other goods and services supplied by Southland businesses.
- 12 The Southland regional economy is highly dependent upon agriculture and agricultural product processing.
- 13 The granting of consents enabling the continued operation of the Lorneville meat processing plant will maintain the economic wellbeing of people and communities within Invercargill City, the Southland District and the Southland region by:

- (a) Maintaining significant direct and indirect employment opportunities for local residents;
 - (b) Maintaining significant direct and indirect wages and salaries for local residents;
 - (c) Maintaining significant levels of direct and indirect expenditure with local businesses;
 - (d) Maintaining population and economic activity levels within local communities thereby maintaining the breadth and quality of services available to local residents and businesses;
 - (e) Providing greater employment choice for local residents;
 - (f) Maintaining low cost wastewater treatment and disposal for Wallacetown residents and businesses; and
 - (g) Continuing Alliance's contributions to local community activities, in its role as a responsible employer and "good corporate citizen".
- 14 The granting of consents sought for the Lorneville plant will maintain resource use efficiency by enabling:
- (a) The continued use of existing plant and equipment with significant sunk costs;
 - (b) The minimisation of transport costs for livestock and finished product dispatch;
 - (c) The continued utilisation of a trained and experienced workforce and businesses with appropriate expertise and experience within close proximity of the plant;
 - (d) The continued benefits from economies of scale and scope as compared to re-locating processing capability to a number of alternative sites; and
 - (e) The maintenance of population and economic activity levels (or "critical mass") in Invercargill City, the Southland District and the Southland region, thereby providing economies of scale and competition in the local provision of goods and services.

- 15 The Lorneville plant's value to Alliance (the existing consents' holder) is very significant.

BACKGROUND TO THE LORNEVILLE PLANT'S OPERATIONS

The Economic Significance of New Zealand's Meat Exports

- 16 Meat exports of \$6.8 billion for calendar year 2015 were New Zealand's second largest exports by value behind dairy products (\$11.8 billion) and ahead of wood and wood products (\$3.6 billion), fruit (\$2.3 billion), and fish (\$1.5 billion). In 2015, meat and edible offal and raw hides, skins and leather (\$0.5 billion) made up 14.4% of the value of New Zealand's commodity¹ export trade.²
- 17 Trade enables New Zealand to specialise in the production of certain products in which New Zealand has a comparative advantage enabling production surplus to domestic consumption to be exported. The production of meat and other animal products is an area in which New Zealand has comparative advantage. Exports of these products provide foreign exchange, enabling New Zealand to finance the purchase of competitively priced imported goods and services. The alternative model of "fortress New Zealand"³ would see higher priced goods and services, reduced choice in the range of goods and services available in New Zealand and a less efficient use of our physical and natural resources. This would result in lower incomes and a lower standard of living for New Zealanders.

The Economic Significance of the Alliance Group and the Lorneville Plant

- 18 Alliance is a co-operative owned and supplied by 4,695 shareholder farmers, who supply more than 80% of the livestock processed at its six plants located in the South Island and two in the North Island.⁴ The largest of these plants is the Lorneville plant, which accounts for approximately half of Alliance's processing capacity and is located at

¹A distinction is made between "commodity trade" or "merchandise trade" and total trade. Commodity trade relates to the exporting and importing of goods only, whereas total trade includes the exporting and importing of both goods and services.

²Trade statistics from Statistics New Zealand NZ Stat.

³ I.e. a situation where New Zealand's trade with the rest of the world is constrained and it is not possible for New Zealand to specialize in the production of those goods and services in which it has a comparative advantage, nor access cheaper goods and services from overseas.

⁴The plants are located at Stoke (Nelson), Smithfield (Timaru), Pukeuri (North Otago), Mataura (Southland), Makarewa (Southland), Lorneville (Southland), Levin and Dannevirke (Hawkes Bay).

Underwood, 7 kilometres north of Invercargill. In 2014/15⁵, the plant processed 2.5 million lambs, 0.48 million sheep and 81,000 calves into meat and meat products, pelts and wool having an estimated total value of \$328 million. Payments for stock in 2014/15 were \$273 million, mostly to Southland (74.3%) and Otago (20.3%) farmers. In addition the plant spent around \$18 million per annum on goods and services supplied by local Southland businesses and \$5 million supplied by Otago businesses. The plant paid \$75 million per annum in wages and salaries to 165 fulltime salaried staff and 1,702 seasonal staff.

- 19 Alliance's total revenues in 2014/15 were \$1.499 billion, of which \$1.228 billion (82%) were from export earnings. It employs 628 fulltime salaried staff and 5,000 seasonal (peak) employees and pays over \$224 million per annum in wages and salaries. Of Alliance's 4,695 shareholders on the Share Register at 30 September 2015, 2,139 (46%) were in Southland. The shareholders are a mix of family owned farms and corporate entities. The Lorneville meat processing plant was established in 1959 and processes lambs, sheep and bobby calves. The plant provides Alliance with its only processing capacity for lambs and sheep within the Southland region and any reduction in the plant's capacity to process lambs and sheep would see this livestock processed outside the region.
- 20 The latest estimate (December 2015) for the Lorneville plant's replacement cost is \$252 million and much of this value is sunk – i.e. it could not be recovered if the plant was forced to downsize, close or be relocated. This means that without consents being granted, much of Alliance's considerable investment in plant and facilities at the site would become "stranded". This is not consistent with the efficient use of resources.
- 21 Stock for the plant is largely sourced locally, and in 2014/15, 74.3% of the stock processed at the plant came from Southland, 20.3% from Otago, 0.4% from the rest of the South Island and 5.0% from the North Island. Stock numbers processed in 2012/13 were 3,001,896 lamb equivalents⁶, in 2013/14, 3,052,354 lamb equivalents and in 2014/15, 3,106,015 lamb equivalents. The forecast for 2015/16 is 2,905,830 lamb equivalents.

⁵i.e. the year ending 30 September, 2015.

⁶Lambs = 1.0 lamb equivalents; sheep = 1.1 lamb equivalents; and calves = 1.5 lamb equivalents.

Meat and meat products plus wool and pelts having a total value of \$328 million were produced at the plant in 2014/15. A total of 1,263 twenty foot equivalent unit (TEU) containers of meat and meat products were shipped from the plant through SouthPort in 2014/15.

- 22 Alliance has analysed the advantages of retaining processing capacity at the Lorneville plant relative to other potential new sites and/or the expansion of other existing plants. The key advantages are:
- (a) The continued use of existing plant and equipment having significant sunk costs;
 - (b) Sufficient livestock production in the immediate area and wider surrounding catchment;
 - (c) Optimised location from the perspective of livestock and processed products transportation;
 - (d) The proximity of a trained and experienced workforce;
 - (e) The proximity of supplier businesses with appropriate expertise and experience;
 - (f) The proximity of both road and rail networks for plant inputs and outputs;
 - (g) The availability of sufficient water supply from the Oreti River to enable livestock processing operations;
 - (h) The ability to discharge treated meat processing waste to the Makawera River and treated wastewater to land;
 - (i) The ability to minimise and mitigate adverse environmental effects for neighbours and the wider community;
 - (j) Few incompatible adjacent or nearby land uses;
 - (k) The site is large enough for any future expansion; and
 - (l) Economies of scale and scope as compared to relocating processing capacity to a number of alternative sites.
- 23 Consent renewals will enable Alliance and its supplier shareholders to continue to benefit from these economic advantages of the plant. Closure or downsizing of the plant due to consents not being renewed or being renewed with more stringent conditions would result in efficiency losses,

higher costs and reduced returns for Alliance's farmer shareholders. In addition there will be economic costs for the broader Invercargill and Southland communities. These are covered later in my evidence.

- 24 Alliance is seeking renewal of consents for a period of 35 years. Longer term consent renewals save more frequent consent renewal costs and provide greater certainty for investment in and management of the plant. In particular it gives a sufficient level of certainty for Alliance to invest in order to upgrade its wastewater treatment system.

ECONOMICS AND THE RMA

Community Economic Wellbeing

- 25 Economic considerations are intertwined with the concept of the sustainable management of natural and physical resources, which is embodied in the RMA. In particular, Part 2 section 5(2) refers to enabling "*people and communities to provide for their ... economic ... well being*" as a part of the meaning of "*sustainable management*", the promotion of which is the purpose of the RMA.
- 26 As well as indicating the relevance of economic effects in considerations under the RMA, this section also refers to "*people and communities*" (emphasis added), which highlights that in assessing the impacts of a proposal it is the impacts on the community and not just the applicant or particular individuals or organisations, that must be taken into account. This is underpinned by the definition of "*environment*"⁷ which also extends to include people and communities.
- 27 The continued operation of the Lorneville plant enables the residents and businesses of Invercargill and the Southland region to provide for their social and economic wellbeing.

Economic Efficiency

- 28 Part 2 section 7(b) of the RMA notes that in achieving the purpose of the RMA, all persons "*shall have particular regard to ... the efficient use and development of natural and physical resources*" which include the economic concept of efficiency⁷. Economic efficiency can be defined as:

⁷See, for example, in *Marlborough Ridge Ltd v Marlborough District Council* [1998] NZRMA 73, the Court noted that all aspects of efficiency are "*economic*" by definition because economics is about the use of resources generally.

"the effectiveness of resource allocation in the economy as a whole such that outputs of goods and services fully reflect consumer preferences for these goods and services as well as individual goods and services being produced at minimum cost through appropriate mixes of factor inputs".⁸

- 29 More generally economic efficiency can be considered in terms of:
- (a) Maximising the value of outputs divided by the cost of inputs;
 - (b) Maximising the value of outputs for a given cost of inputs;
 - (c) Minimising the cost of inputs for a given value of outputs;
 - (d) Improving the utilisation of existing assets; and
 - (e) Minimising waste.
- 30 The continued operation of Alliance's Lorneville plant is consistent with the efficient use of resources, especially in regard to the ongoing use of significant existing assets, transport cost savings and the economies of scale in production available at the plant.

Value of Investment to the Existing Consent Holder

- 31 Part 6, section 104 (2A) of the RMA requires the consent authority when considering a renewal of an existing consent to "*have regard to the value of the investment of the existing consent holder.*" The value to Alliance of its investment in the Lorneville plant can be considered in terms of either the replacement value of the plant (\$252 million) or the foregone future earnings of the plant if it was forced to close. By both of these measures, the value of the Lorneville plant is significant to the existing consent holder.

Viewpoint

- 32 An essential first step in carrying out an evaluation of the positive and negative economic effects of the granting of consent renewals is to define the appropriate viewpoint that is to be adopted. This helps to define which economic effects are relevant to the analysis. Typically a city (or district) or wider regional viewpoint is adopted and sometimes even a nationwide viewpoint might be considered appropriate.

⁸Pass, Christopher and Lowes, Bryan, 1993, *Collins Dictionary of Economics* (2nd edition), Harper Collins, page 148.

- 33 The Lorneville processing plant is located in the Southland District, which is part of the Southland region. Because of the plant's proximity to Invercargill, the plant's operations have significant economic effects for Invercargill City as well as the wider Southland region. Therefore in my evidence the economic effects are considered in relation to Invercargill City and the Southland region.
- 34 There are also private or financial benefits associated with the granting of consent renewals. Generally these benefits are not relevant under the RMA and the main focus of my evidence is therefore on the wider economic effects on parties other than Alliance and its customers. Economists refer to such effects as "externalities"⁹.
- 35 However, Alliance is owned by its farmer shareholders and financial benefits to Alliance impact on the "*economic (and social) well being*" of these farmer shareholders including those within the local community – i.e. the Southland region. Increased returns to (or reduced costs for) farmer shareholders in Southland will flow through to increased expenditure, employment and incomes within the Invercargill and Southland economies, as a consequence of increased disposable income for local farmer shareholders. Also financial benefits to Alliance are relevant with respect to the "*efficient use and development of natural and physical resources*" and New Zealand's export competitiveness, given the Lorneville plant's significant scale and the importance of meat and meat product exports to the New Zealand economy.

Non-economic Effect

- 36 My evidence addresses the economic effects¹⁰ of the renewal of consents at the Lorneville plant. Non-economic effects (i.e. the environmental, social and cultural effects) are covered in the evidence of other witnesses for Alliance.
- 37 In economics, 'intangible' costs and benefits are defined as those which cannot be quantified in monetary terms. Sometimes attempts can be made to estimate monetary values for 'intangible' non-economic costs and benefits using techniques such as willingness to pay surveys or inferring values on the basis of differences in property values. Once quantified in

⁹Defined as the side effects of the production or use of a good or service, which affects third parties, other than just the buyer and seller.

¹⁰Sometimes economic effects can have a social dimension – e.g. employment and income effects.

monetary terms, these effects can supposedly be considered as part of the assessment of economic effects.

- 38 However, such techniques are frequently subject to uncertainty and criticism. In my opinion it is generally better to not attempt to estimate monetary values for these effects but to leave them to be assessed by appropriately qualified experts (see for example the technical reports and evidence of Mark James and Roger Cudmore) and for their assessments to form part of the application of the relevant legal test. This also avoids the danger of 'double-counting' – i.e. including them within a quantified measure of economic wellbeing or efficiency and treating them as a separate consideration.

INVERCARGILL CITY AND SOUTHLAND REGION'S ECONOMIES¹¹

Population

- 39 Statistics New Zealand's June 2015 population estimate for Invercargill City is 54,200. In 2006 population in the City was estimated to be 51,600, implying growth of 5.0% over the period 2006 to 2015, as compared to growth of 9.8% for New Zealand as whole. Statistics New Zealand's 'medium' population projections¹² have Invercargill City's population increasing to 54,800 in 2043 – i.e. an average rate of increase of 0.04% per annum over the period 2015-41, compared to an average rate of growth for New Zealand of 0.7% per annum.
- 40 Statistics New Zealand's June 2015 population estimate for the Southland region is 97,300. In 2006 population in the region was 93,200. The region's population over the period 2006 to 2015 has grown by 4.4%. Statistics New Zealand's 'medium' population projections have the region's population decreasing to 96,800 in 2041 – i.e. an average rate of decline of 0.02% per annum over the period 2014-41.

Employment

- 41 Employment data highlight the importance of manufacturing to Invercargill City. In February 2015, 3,750 jobs (14.2%) of the City's 26,390 jobs were in manufacturing with food products manufacturing contributing 1,410 jobs

¹¹Data in this section is from Statistics New Zealand, NZ Stat.

¹²Statistics New Zealand prepare three sets of projections – high, medium and low – according to natural population change (i.e. the net effect of birth and death rate assumptions) and net migration assumptions. These projections do not explicitly incorporate assumptions about different rates of economic development.

(of which 960 jobs were in meat and meat products manufacturing) and primary metal and metal products manufacturing (including the Tiwai Point aluminium smelter) contributing 750 jobs the most significant sub-sectors. This understates the importance of food manufacturing since the jobs included are only those within the City, and Invercargill residents will in some cases travel to jobs in food manufacturing plants (e.g. the Lorneville meat processing plant and Fonterra's Edendale milk processing plant) outside the City's boundaries. Other significant sources of employment within Invercargill City are health and social assistance (3,640 jobs, or 13.8% of total employment), retail trade (3,350 or 12.7% of total employment), construction (2,200 jobs or 8.3% of total employment) and education and training (2,190 or 8.3% of total employment).

- 42 For the Southland region in February 2015 there were 48,850 jobs. Agriculture, forestry and fishing with 8,310 jobs (17.0% of total employment) and manufacturing with 8,400 jobs (17.2% of total employment) are the two largest sectors. Within agriculture, forestry and fishing, accounts for around 7,491 or 89.2% of these jobs including 3,020 in dairy farming and 2,340 in sheep, beef cattle and grain farming. Within manufacturing, there are 5,200 jobs in food product manufacturing including 3,980 jobs in meat and meat products manufacturing and 730 jobs in dairy products manufacturing. Other important sources of employment for the Southland region are retail trade (4,810 jobs or 9.9% of total regional employment), health and social assistance (4,540 jobs or 9.3% of total regional employment), education and training (3,280 jobs or 6.7% of total regional employment), construction (3,230 jobs or 6.6% of total regional employment) and accommodation and food services (3,140 jobs or 6.4% of total regional employment). However these service sectors are to a large extent "driven" by the economic activity generated by the so called "economic drivers" of the region – principally agriculture and agricultural product processing and the Tiwai point aluminium smelter. Taken together agriculture, food product manufacturing and the Tiwai Point aluminium smelter directly account for about 28% of total employment in the region. With the inclusion of the flow on, or "multiplier" effects, (see next section of my evidence), these industries generate around 49% of total employment in the region.
- 43 Like the region, Invercargill City is also very much "driven" by these same industries.

ECONOMIC BENEFITS FROM CONSENT RENEWALS

Maintaining Economic Activity within the City and Regional Economies¹³

- 44 The Lorneville meat processing plant employs 165 full time salaried staff and 1,702 seasonal workers at the peak. This equates to 1,057 full time equivalent staff (FTEs). Alliance's Lorneville plant pays out \$75.3 million in wages and salaries per annum and spends an estimated additional \$17.9 million per annum in the Southland region on goods and services. Goods and services to the plant provided by local firms include engineering, plumbing, electrical and security contractors; packaging suppliers; utilities (electricity and telecommunications); providers of medical services and supplies (doctors, physiotherapists, drug testers and other healthcare service suppliers); professional service suppliers; and providers of laboratory equipment and materials, clothing, fuels, knives and food.
- 45 These are the direct economic impacts for the Southland region's economy from the plant's operation.¹⁴
- 46 However in addition to these direct economic impacts there are indirect impacts arising from:
- (a) The effects on suppliers of goods and services provided to the plant from within the region (i.e. the "forward and backward linkage" effects); and
 - (b) The supply of goods and services from within the region to employees at the plant and to those engaged in supplying goods and services to the plant (i.e. the "induced" effects). For example, there will be additional jobs and incomes for employees of supermarkets, restaurants and bars as a consequence of the additional expenditure by employees directly employed at the plant.
- 47 Multipliers can be estimated to gauge the size of these indirect effects. The size of the multipliers is a function of the extent to which an area's

¹³Unless stated otherwise data in this section provided by Alliance.

¹⁴No account is taken in this section of my evidence of the direct and indirect economic impacts of sheep and beef cattle farming within the region. Sheep and beef cattle farming will in general not be affected by whether the resource consents are renewed – i.e. livestock produced within the region are assumed to be diverted to other meat processing plants that have capacity if consents are not renewed. However to the extent the non-renewal of consents or stricter consent conditions add costs to meat processing, farmers will be impacted as a consequence of lower payments for livestock.

economy is self-sufficient in the provision of a full range of goods and services and the area's proximity to alternative sources of supply. Multipliers typically fall in the range of 1.5 to 2.0 and taking the mid-point of this range (i.e. 1.75) implies total impacts (i.e. direct plus indirect impacts) of:

- (a) 1,850 FTE jobs for local Southland residents; and
- (b) \$131.8 million per annum in wages and salaries for local Southland residents.

48 Given the Lorneville plant's proximity to Invercargill and the range of goods and services available in Invercargill compared to other centres in the region, most of this additional economic activity is generated in Invercargill City.

Economic Benefits from Increased Economic Activity

49 As indicators of levels of economic activity, economic impacts in terms of increased expenditure, incomes and employment within the local economy are not in themselves measures of improvements in economic welfare or economic wellbeing. However, there are economic welfare enhancing benefits associated with increased levels of economic activity. These relate to one or more of:

- (a) Increased economies of scale: Businesses and public sector agencies are able to provide increased amounts of outputs with lower unit costs, hence increasing profitability or lowering prices;
- (b) Increased competition: Increases in the demand for goods and services allow a greater number of providers of goods and services in markets and there are efficiency benefits from increased levels of competition;
- (c) Reduced unemployment and underemployment¹⁵ of resources: To the extent resources (including labour) would be otherwise unemployed or underemployed, higher levels of economic activity can bring efficiency benefits when there is a reduction in unemployment and underemployment. The extent of such gains is of course a function of the extent of underutilized resources within

¹⁵Underemployment differs from unemployment in that resources are employed but not at their maximum worth; e.g. in the case of labour, it can be employed at a higher skill and/or productivity level, reflected in higher wage rates.

the local economy at the time and the match of resource requirements and those resources unemployed or underemployed within the local economy; and

- (d) Increased quality of central government provided services: Sometimes the quality of services provided by central government such as education and health care are a function of population levels and the breadth and quality of such services in a community is higher with higher levels of economic activity, particularly to the extent they lead to or maintain higher levels of population.

- 50 The Lorneville meat processing plant gives Invercargill City greater critical mass and as a consequence the residents and businesses within the City benefit from economies of scale, greater competition, increased resource utilisation and better central government provided services. This is also true for the Southland region, although to a lesser extent given the economic activity generated by the plant is proportionately less for the region as compared to Invercargill City.
- 51 By maintaining levels of economic activity, employment and incomes within the region, the renewal of the Lorneville plant's consents will contribute to the social and economic well being of the region's residents and businesses. It is also consistent with the efficient use of the region's resources.

Economic Efficiency Benefits from Optimising Plant Location

- 52 There are a number of economic efficiency benefits from Alliance obtaining consents to enable the continued operation of the Lorneville plant at its current site. These have been listed earlier in my evidence and include the continued use of existing plant and equipment with a reinstatement value of \$252 million,¹⁶ the minimisation of transport costs (and carbon footprint) for livestock and finished product dispatch, the availability of a trained and experienced workforce and businesses with appropriate expertise and experience within close proximity of the plant, and economies of scale and scope as compared to re-locating processing capability to a number of alternative sites.

¹⁶In addition to the economic efficiency benefits from the continued use of plant and equipment having a reinstatement value of \$252 million, Alliance's significant investment in the Lorneville plant is also relevant in terms of Part 6, section 104 (2A) of the RMA, which requires regard to be given to value of the investment of the existing consent holder.

- 53 The Lorneville plant provides Alliance with its only lamb and sheep processing capacity in Southland and farmers would need to truck lambs and sheep out of the region for processing if the Lorneville plant's processing capacity for lambs and sheep was reduced. There is insufficient capacity at other plants within the region to handle lambs and sheep processed at the Lorneville plant. This would add to farmers' costs, reduce their disposable incomes and reduce spending in Invercargill and other centres within the region. Also the Lorneville plant provides Alliance with its only rendering operation in the region. In addition to rendering by-product from Alliance's two main Southland plants, it renders fallen stock on a tolling basis for Slink Skin New Zealand (SSNZ). SSNZ collects the fallen stock from farms in the region, skins the animals and transports the skinned carcasses to the Lorneville plant to be rendered. In the absence of this service the stock would be left on farms and need to be buried, reducing returns to farmers and adding to their costs.
- 54 As mentioned earlier in my evidence, Alliance is seeking renewal of consents for a period of 35 years. There are also economic efficiency benefits associated with consents being renewed for a longer term as compared to short term (e.g. 10 year) consent renewals. Longer term consent renewals not only save more frequent consent renewal costs, but also provide greater certainty for investment in and management of the plant.
- 55 Maintaining these economic efficiency benefits is consistent with "the efficient use and development of natural and physical resources" (Part 2, section 7(b) of the RMA) as well as enabling "people and communities to provide for their economic and social wellbeing" (Part 2, section 5(2) of the RMA).

Greater Economic Resilience for Invercargill City and the Southland Region

- 56 As discussed earlier in my evidence, both the Southland region and Invercargill City are significantly dependent upon the agricultural sector, especially sheep and beef cattle and dairy farming. Therefore the Lorneville plant helps provide greater diversity and balance to the two economies. Although it involves the processing of livestock, having livestock processing manufacturing capacity within the region provides employment opportunities and incomes less dependent upon returns to the agricultural sector. This makes the Invercargill City and Southland economies more resilient to agricultural commodity price cycles and

therefore contributes to the social and economic well being of local residents and businesses.

Rates Income to the ICC and Environment Southland

- 57 The Lorneville plant pays \$93,000 per annum in rates to the ICC and \$8,200 per annum in rates to Environment Southland. The plant also pays out \$19,000 per annum in consent fees. Whilst these payments are for services provided by the Councils and from which Alliance and its employees benefit, economies of scale mean that should the Councils lose this income, the range and quality of services provided by the Councils would diminish and/or payments by other ratepayers in the City and region would need to increase.
- 58 This contributes to the social and economic wellbeing of businesses and residents within the Southland District.

Wallacetown Wastewater Disposal Cost Savings

- 59 Wallacetown is some 5 kilometres from the Lorneville Plant and the approximately 700 residents benefit from the Lorneville Plant's treatment and disposal of the town's wastewater. The wastewater from the town is pumped and piped to the head of the Lorneville plant's wastewater treatment plant. Wallacetown ratepayers initially paid a small (around \$15,000 in total) cost recovery charge each year, until Southland District Council introduced a district-wide wastewater levy. Now in effect all Southland District ratepayers benefit from Wallacetown's wastewater utilising the Lorneville Plant's wastewater treatment and disposal facilities.
- 60 Should the consents for the Lorneville plant's wastewater disposal not be granted, or be granted with more stringent conditions (e.g. requiring disinfecting of the full wastewater stream or requiring the separation of human waste, treatment and disposal to land), there would be significant additional capital and ongoing annual costs for Wallacetown ratepayers and other Southland District ratepayers to bear.
- 61 This contributes to the social and economic well being of the residents and businesses within the Southland District. It is also consistent with the efficient use of resources.

Community Sponsorship Programmes

- 62 In recognition of the important role the community plays in helping Alliance realise its potential, the company provides financial support to a

number of initiatives at the community and national level. In the year to 30 September, 2015 the Lorneville plant made grants totalling \$35,000 to various community organisations. This contributes to the social and economic wellbeing of the local community.

COUNCIL OFFICER'S SECTION 42A REPORT

- 63 I have read the Council Officer's Section 42A Report and note that within the report the significant positive economic and social benefits of the Lorneville plant's site and operations are acknowledged. This occurs in relation to the Section 42A Report's:
- (a) Summary of the NZ Meatworkers Union (Alliance Lorneville Sub-branch) submission in support of the consents' renewal application and which covers the economic benefits for Invercargill City and the Southland region from the continued operation of the plant (see page 11 of the Section 42A Report);
 - (b) Summary of the Southland District Council's submission in support of the consents' renewal application and which covers:
 - (i) The financial benefits to the Wallacetown community from the Lorneville plant receiving its wastewater for treatment and disposal; and
 - (ii) The applicant being a significant employer within the Southland District and region and supporter of local industries and communities (see pages 12 and 13 of the Section 42A Report);
 - (c) Acknowledgment of the positive economic effects of the Lorneville plant for Southland businesses, farmers and residents (see page 16 of the Section 42A Report);
 - (d) Acknowledgment that the application is consistent with Objective 2 of the Proposed Southland Water and Land Plan which seeks that "*Water and land is recognised as an enabler of economic, social and cultural wellbeing*" (see page 56 of the Section 42A Report); and
 - (e) Acknowledgment of the considerable existing investment of the applicant in the Lorneville site and plant (see page 63 of the Section 42A Report).

CONCLUSIONS

- 64 The granting of consents enabling the continued operation of the Lorneville meat processing plant will maintain the economic wellbeing of people and communities within Invercargill City, the Southland District and the Southland region by:
- (a) Maintaining significant direct and indirect employment opportunities for local residents;
 - (b) Maintaining significant direct and indirect wages and salaries for local residents;
 - (c) Maintaining significant levels of direct and indirect expenditure with local businesses;
 - (d) Maintaining population and economic activity levels within local communities thereby maintaining the breadth and quality of services available to local residents and businesses;
 - (e) Providing greater employment choice for local residents;
 - (f) Maintaining low cost wastewater treatment and disposal for Wallacetown residents and businesses; and
 - (g) Continuing Alliance contributions to local community activities, in its role as a responsible employer and "good corporate citizen".
- 65 The granting of consents sought for the Lorneville plant will maintain resource use efficiency by enabling:
- (a) The continued use of existing plant and equipment with significant sunk costs;
 - (b) The minimisation of transport costs for livestock and finished product dispatch;
 - (c) The continued utilisation of a trained and experienced workforce and businesses with appropriate expertise and experience within close proximity of the plant;
 - (d) The continued benefits from economies of scale and scope as compared to re-locating processing capability to a number of alternative sites; and

- (e) The maintenance of population and economic activity levels (or "critical mass") in Invercargill City, the Southland District and the Southland region, thereby providing economies of scale and competition in the local provision of goods and services.

66 The Lorneville plant has a replacement value estimated at \$252 million. Therefore its value to Alliance (the existing consents' holder) is very significant.

Michael Copeland

4 July 2016

REFERENCES

- 1 *Marlborough Ridge Ltd v Marlborough District Council* [1998] NZRMA 73.
- 2 Pass, Christopher and Lowes, Bryan, 1993, *Collins Dictionary of Economics* (2nd edition), Harper Collins.

APPENDIX 1:**CURRICULUM VITAE OF MICHAEL CAMPBELL COPELAND**

DATE OF BIRTH	3 October 1950
NATIONALITY	New Zealand
EDUCATIONAL	Bachelor of Science (Mathematics) 1971
QUALIFICATIONS	Master of Commerce (Economics) 1972

PRESENT POSITIONS

(Since 1982)	Economic Consultant, Brown, Copeland & Co Ltd
(Since 2010)	Director, Healthcare New Zealand Holdings Limited

PREVIOUS EXPERIENCE

1978-82	NZ Institute of Economic Research Contracts Manager/Senior Economist
1975-78	Confederation of British Industry Industrial Economist
1972-75	NZ Institute of Economic Research Research Economist
1990-94	Member, Commerce Commission
2001-06	West Coast Regional Council Trustee, West Coast Development Trust
2002-08	Lay Member of the High Court under the Commerce Act 1986
2003-11	Director, Wellington Rugby Union
2010-13	Director, Southern Pastures

GEOGRAPHICAL EXPERIENCE

- New Zealand
- Australia
- Asia (Cambodia, India, Indonesia, Kazakhstan, Malaysia, Nepal, Pakistan, People's Republic of China, Philippines, Tajikistan, Sri Lanka, Uzbekistan, Viet Nam)
- South Pacific (Cook Islands, Fiji, Tokelau, Tonga, Vanuatu, Western Samoa)
- United Kingdom

AREAS OF PRIMARY EXPERTISE

- Agriculture and Resource Use Economics (including Resource Management Act)
- Commercial Law and Economics (including Commerce Act)
- Development Programme Management
- Energy Economics

- Industry Economics
- Transport Economics

RESOURCE MANAGEMENT ACT SPECIFIC PROJECTS

- Port storage facilities at Westport;
- The proposed Clifford Bay ferry terminal;
- The proposed pipeline and related facilities to utilise water from the Waikato River for metropolitan Auckland;
- A container terminal expansion by the Ports of Auckland;
- The proposed Variation No. 8 to the Wellington City District Plan covering height and other controls on development of the airspace above the Wellington railway yards;
- Proposed expansion of Paraparaumu town centre within the Kapiti Coast District;
- Wellington City Council's heritage preservation policy;
- Solid Energy's proposed West Coast Coal Terminal at Granity;
- Solid Energy's Mt William North coal mine at Stockton in the Buller District;
- The proposed Waimakariri Employment Park;
- The designation of land for a proposed motorway extension in the Hawke's Bay;
- The Hastings District Council's Ocean Outfall – two consent renewal applications;
- A proposed new shopping and entertainment centre in Upper Hutt;
- Rezoning of land in Upper Hutt from Business Industrial to Residential;
- New regional correctional facilities in Northland, South Auckland, Waikato and Otago;
- Proposed controls on wake generation by vessels travelling within the waterways of the Marlborough Sounds;
- The expansion of marina facilities within the Marlborough Sounds;
- Southern Capital's proposed new township at Pegasus Bay, north of Christchurch;
- Renewal of water resource consents for the Tongariro Power Development Scheme;
- Economic analysis inputs to a Section 32 report for the Waitaki Water Allocation Board;
- The imposition of land use restrictions within noise contours surrounding Christchurch International Airport;
- The expansion of the Whangaripo Quarry in Rodney District;
- The economic significance of Winstone's proposed quarry at Wainui, in the north of Auckland City;
- A proposed five star hotel development for Wanaka;
- Holcim's proposed new cement plant near Weston in the Waitaki District;
- TrustPower's proposed new wind farm at Mahinerangi in Central Otago;
- TrustPower's proposed new Arnold hydroelectric power scheme on the West Coast;
- McCallum Bros and Sea Tow Limited's appeal before the Environment Court regarding extraction of sand from the Mangawhai-Pakiri embayment north of Auckland;
- The development of the Symonds Hill pit at Winstones' Hunua Quarry;
- The rezoning of land for residential development at Peninsula Bay, Wanaka;

- The rezoning of land for more intensive residential development at PekaPeka on the Kapiti Coast;
- A gondola development for the Treble Cone skifield;
- A gondola development for the Snow Farm and Snow Park skiing and snowboarding facilities;
- The extraction of gravel from the bed of the Shotover River;
- The proposed Hilton hotel development on Wellington's Queen's Wharf;
- Land use restrictions in relation to the Runway Extension Protection Areas for Christchurch International Airport;
- A new residential and commercial development by Apple Fields at Belfast on the outskirts of Christchurch;
- A proposed business park development on land at Paraparaumu Airport;
- The proposed redevelopment of Wellington's Overseas Passenger Terminal;
- The proposed Central Plains irrigation scheme in Canterbury;
- The staging of residential and business development at Silverdale North in the Rodney District;
- The redevelopment of the Johnsonville Shopping Centre;
- A Plan Change enabling the relocation of existing development rights for a residential and commercial development on Mount Cardrona Station in the Queenstown Lakes District;
- A new Pak'n Save supermarket at Rangiora;
- New supermarkets at Kaiapoi, Whitby, Silverstream and Havelock North;
- The extension of the TeRereHau wind farm in the Tararua District;
- MainPower's proposed new wind farm at Mount Cass;
- Fonterra's proposed new milk processing plant at Darfield and its subsequent expansion;
- Fonterra Pahiatua milk powder plant expansion;
- Fonterra's proposed new coal mine in the Waikato District;
- Assessment of the economic significance of ANZCO's Canterbury operations to the Canterbury regional economy;
- Resource consent extensions for Oceana Gold (New Zealand) Limited's gold mining operations at Macraes Flat in north-east Otago, the Globe Mine at Reefton and a proposed underground gold mine at Blackwater on the West Coast;
- Designation of land for NZTA's Waterview motorway project in Auckland;
- Designation of land and resource consents for NZTA's Transmission Gully motorway project in Wellington;
- Designation of land and resource consents for NZTA's MacKays to PekaPeka Expressway;
- Designation of land and resource consents for NZTA's PekaPeka to Otaki Expressway;
- Resource consents for NZTA's Basin Reserve Bridge Project;
- Resource consents for NZTA's Puhoi to Warkworth motorway extension;
- Resource consents for the Ruataniwha Water Storage Scheme;
- Assessment of the economic effects of a Queenstown Airport Corporation's proposed Notice of Requirement for the designation of additional land for aerodrome purposes;
- Assessment of the retail effects of proposed Plan Change 19 to the Queenstown Lakes District's District Plan;
- Assessment of the regional and national economic significance of Lyttelton Port;

- The economic benefits of utilising a Recovery Plan under the Canterbury Earthquake Recovery Act for the rehabilitation and enhancement of facilities at Lyttelton Port;
- The economic effects of the Lyttelton Port Company's Capital Dredging Project;
- Meridian's proposed new Mokihinui hydro scheme;
- Assessment of the economic effects of alternative wreck recovery options for the MV Rena;
- Assessment of the economic benefits and costs of Transpower's corridor management approach to giving effect to the National Policy Statement on Electricity Transmission in District and City Plans;
- Assessment of economic effects of a proposed extension to Arrowtown's urban boundary;
- Assessment of the economic benefits of overhead deployment of ultrafast broadband infrastructure;
- Assessment of the economic benefits of the proposed Ruataniwha Water Storage Scheme;
- Preparation of evidence for Transpower in relation to the proposed Ruakura development on the outskirts of Hamilton City;
- Preparation of two reports reviewing the economic benefits of the Hobbiton movie set at Matamata;
- Assessment of the economic benefits of renewal of a water discharge consent for Silver Fern Farm's Belfast meat processing plant;
- Preparation of evidence for Transpower in relation to the Proposed Auckland Unitary Plan;
- Preparation of evidence for Transpower, Ngāi Tahu Property Limited, the Lyttelton Port Company, Canterbury International Airport Limited, Tailorspace Limited, Church Property Trustees, the Roman Catholic Bishop of the Diocese of Christchurch, Pacific Park Limited, Fulton Hogan and the Christchurch Aggregates Producers Group in relation to the Proposed Christchurch Replacement District Plan;
- Preparation for a range of parties on economic issues relating to relief sought on Rural and Rural Recreation and Rural Lifestyle Chapters of the Proposed Queenstown Lakes District Plan.