

Before the Independent Hearings Panel
at Timaru

under: the Resource Management Act 1991

in the matter of: Submissions and further submissions in relation to
Timaru Proposed District Plan – Hearing B

and: **Fonterra Limited**
Submitter 165

Statement of evidence of Michael Campbell Copeland (Economics)

Dated: 7 July 2024

REFERENCE: B G Williams (ben.williams@chapmantripp.com)

STATEMENT OF EVIDENCE OF MICHAEL CAMPBELL COPELAND

INTRODUCTION

- 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 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 I have over 40 years' experience in the application of economics to various areas of business, including resource management matters. During the period 1990 to 1994, I was also a member of the Commerce Commission and during the period 2002 to 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 projects and policies.

CODE OF CONDUCT

- 6 Although this is a council hearing, I confirm I have read the Expert Witness Code of Conduct set out in the Environment Court's Practice Note 2023. I have complied with the Code of Conduct in preparing this evidence and I agree to comply with it while giving oral evidence before the hearing committee. Except where I state that I am relying on the evidence of another person, this written evidence is within my area of expertise. I have not omitted to consider material facts known to me that might alter or detract from the opinions expressed in this evidence.

SCOPE OF EVIDENCE

- 7 Within the Timaru District, Fonterra Limited (*Fonterra*) owns and operates its Clandeboye manufacturing site (the *Clandeboye Site*) and leases retail and office facilities at Hally Terrace, Temuka. Further product handling occurs at the rail hub in Temuka. It also makes use of third-party cool storage facilities at Port Timaru.
- 8 Fonterra made a submission on the Proposed Timaru District Plan (*PDP*) seeking amendments to better provide for its *Clandeboye Site*. Fonterra is seeking a new zone (being the Special Purpose Zone: Clandeboye Manufacturing Site (CDMZ)) to provide the flexibility to operate and the ability to expand existing activities, while also providing realistic expectations for the Council and the surrounding community in relation to the site in the long term.

- 9 In the event that Fonterra’s rezoning request is not accepted, Fonterra has also sought a number of alternative amendments, including modifications to the General Industry Zone (*GIZ*), including a specific precinct for the Clandeboye Site.
- 10 Fonterra is also seeking to have a noise control boundary (*NCB*) for the Clandeboye Site inserted in the Noise Chapter of the PDP.
- 11 The proposed amendments are intended to reduce Fonterra’s ongoing reliance on the resource consent process for variations or changes in the future use of the site. It has therefore been prepared to provide for the maximum envisaged scale of manufacturing development that is likely to occur on the site in the foreseeable future. This will reduce the time, costs and uncertainties associated with seeking future consents for what is largely the consolidation of an existing established dairy plant.
- 12 My evidence addresses the economic effects of Fonterra’s relief. Following an executive summary, my evidence covers the following:
- 12.1 The background to Fonterra’s existing and future use of the Clandeboye Site and the Temuka site;
- 12.2 A consideration of the relevance of economic effects under the RMA;
- 12.3 A description of the Timaru District, and Canterbury regional economies;
- 12.4 The economic benefits from the continued operation of Fonterra’s existing milk processing activities at Fonterra’s Clandeboye Site and associated activities at its Temuka site and at Port Timaru;
- 12.5 A discussion of some potential economic costs of the continued operation of milk processing activities at Fonterra’s Clandeboye Site and associated activities at its Temuka site and at Port Timaru; and
- 12.6 Some overall conclusions.
- 13 In preparing my evidence, I have reviewed:
- 13.1 Fonterra’s submissions on the PDP; and
- 13.2 the evidence of Ms Suzanne O’Rourke—for the Strategic Directions hearing and Mr Ross Burdett for this hearing.

SUMMARY

- 14 Fonterra is New Zealand’s largest company with more than 12,100 New Zealand based staff and more than 5,800 employees based overseas. In the 2022/23 financial year, Fonterra’s global revenue was \$24.580 billion.
- 15 Its Clandeboye Site employs over 1,200 staff and processes 2.3 billion litres of milk per annum, with payments to Timaru District and neighbouring

district farmer suppliers estimated to be over \$1.8 billion for the 2023/24 season.

- 16 Timaru Port services the Clandeboye Site and exports 98% of the site's production, which equates to 14% of Fonterra's total dairy product exports to international markets.
- 17 Enabling people and communities to provide for their economic wellbeing and the efficient use of resources are relevant concepts under the RMA.
- 18 The value to Fonterra of its investment in the Clandeboye Site can be considered in terms of either the reinstatement value of the facilities at the site (\$1 billion) or the foregone future earnings of the facilities on the site if it was forced to close or downsize. By both of these measures, the value of investment to the existing consent holder is significant.
- 19 However, Fonterra's operations at its Clandeboye Site and its associated activities at its Temuka site and Port Timaru are also of economic significance at both a district and regional level. Significant amounts of direct and indirect employment, incomes and expenditure are associated with these operations. They are economically significant in both the provision of economic activity within the local district and regional economies and providing economic diversity.
- 20 Closure or constraints placed on the processing capacity of Fonterra's dairy manufacturing site at the Clandeboye Site would require milk from the site's local catchment area to be transported further away for processing with significant additional costs.
- 21 In addition, there are a number of other advantages in maintaining production at the Clandeboye Site as compared to relocating capacity to potential new sites and/or the expansion of facilities at other existing Fonterra plants. This includes the continued optimum use of existing "sunk" assets, which otherwise would be largely "stranded".
- 22 The continuation of Fonterra's activities at its Clandeboye Site, without additional constraints on their efficient operation, is consistent with providing for the social and economic wellbeing of local residents and businesses. It is also consistent with the efficient use and development of natural and physical resources.

BACKGROUND TO FONTERRA'S EXISTING AND FUTURE USE OF ITS CLANDEBOYE AND TEMUKA SITES AND TIMARU PORT¹

- 23 Fonterra is a global leader in dairy nutrition and the preferred supplier of dairy ingredients to many of the world's leading food companies. Fonterra is a farmer owned co-operative, and the largest exporter of milk in the world. It is one of the world's largest investors in dairy research and innovation drawing on generations of dairy expertise to produce dairy ingredients,

¹ Material in this section provided by Fonterra.

including value added dairy ingredients, specialty ingredients and consumer products for over 130 markets.

- 24 Annually, Fonterra collects more than 17.8 billion litres of milk from New Zealand farms and exports 2.5 million tonnes of dairy products. Fonterra owns and operates 28 manufacturing sites, five brands sites and three logistics/distribution sites within New Zealand.
- 25 Fonterra is New Zealand's largest company, and a significant employer, with more than 12,100 New Zealand based staff and more than 5,800 employees based overseas in 2022/23. Globally, Fonterra owns leading dairy brands in Australasia, Asia, the Middle East and Latin America. In the 2022/23 financial year, Fonterra's global revenue was \$24.580 billion.
- 26 Fonterra's Clandeboye Site is located near Temuka within the Timaru District. The Clandeboye Site has been operating since 1904 and Fonterra employs over 1,200 staff at the site. It now processes approximately 40% of Fonterra's South Island milk into cheddar, mozzarella, whey protein concentrate, butter, whole milk powder, skim milk powder, anhydrous milk fat and milk protein concentrate. The Clandeboye Site processes up to 13 million litres of milk every day during the dairy season, or around 2,325 million litres per annum. When operating at full capacity, the plant processes 8-9% of New Zealand's peak milk production. More than 10,000 containers are filled each year ready to be shipped to more than 50 countries, including the United States, China, Indonesia, Australia, Algeria, Bahrain, and other countries in Africa and the Middle East. Around 98% of the Clandeboye plant's production is exported via Timaru Port with the remainder exported via Lyttelton Port or sold to domestic markets.
- 27 The Clandeboye plant relies heavily on the roading and rail network within the Timaru District. Temuka is a key rail hub within the District for transporting products which are then ferried to and from the plant via trucks.
- 28 Clandeboye also has a fleet of 70 tankers (increasing to 72 for the 2024/25 season) which pick-up and transfer milk to the plant and other Fonterra South Island plants from within the central South Island. These tankers travel around 15 million kilometres per annum.
- 29 The total production of milk processed at the Clandeboye Site for the 2023/24 season is forecast to be around 2.3 billion litres resulting in payments to Timaru District and neighbouring district farmers in excess of \$1.8 billion.
- 30 Milk supply in the Clandeboye Site's catchment area grew over the past decade. However, going forward Fonterra's focus is to deliver value from New Zealand milk and to make the right product for the right market.
- 31 Production at the site itself may still be subject to small changes over time as, for example, on-farm efficiency improvements result in more milk production or non-Fonterra supplier farmers moving to or from Fonterra.

- 32 Under section 73 of the Dairy Industry Restructuring Act 2001 (*DIRA*), Fonterra is required to accept all new applications to become Fonterra shareholder farmers and all applications to increase the volume of milk supplied by shareholding farmers.²Fonterra is also required to supply its competitors up to five percent of milk collected for processing. At certain times of the year (in some years), milk is transported from the North Island to the South Island for processing. These legislative and practical considerations are explained in the evidence of **Suzanne O'Rouke**. As a consequence of these considerations, Fonterra is required to maintain surplus processing capacity at each of its plants, including the Clandeboye plant, to ensure it can match the volume of milk supplied to it.
- 33 Fonterra's Temuka site houses a retail store and offices for Fonterra staff (6 full time equivalent (FTE) staff and 4 casuals assumed to equate to around 8 FTE staff in total). It is located in Hally Terrace, Temuka.
- 34 Timaru Port services the Clandeboye Site and exports 14% of Fonterra's total dairy products to international markets.

ECONOMICS AND THE RMA

- 35 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.
- 36 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*" which also extends to include people and communities.
- 37 The continued operation of Fonterra's dairy product manufacturing capacity at the Clandeboye site and its Temuka sites, along with operations at Timaru Port will enable the residents and businesses of the Timaru District and the Canterbury region to provide for their social and economic wellbeing.³

² In some exceptional circumstances, Fonterra can refuse to accept additional volumes of milk for processing. These circumstances relate to minimum volumes of milk solids and where transport costs for a new applicant exceed those of its highest transport cost existing supplier.

³ The significance of dairy product manufacturing to the local economy is illustrated by food and fibre exports from the South Canterbury region, which covers the Mckenzie, Timaru and Waimate Districts, totalling \$3.9 billion in the year to end June 2022. This was 7.3% of New Zealand's total food and fibre exports as compared to the region containing only 1.2% of New Zealand's total population. Dairy product exports from the region totalled \$2.5 billion (64.1% of the region's food and fibre exports), whilst 99% of the region's food and fibre exports used Port Timaru. See -

Economic Efficiency

- 38 Part 2 section 7(b) of the RMA notes that in achieving the purpose of the Act, all persons "*shall have particular regard to ... the efficient use and development of natural and physical resources*". It is accepted that this includes the economic concept of efficiency.⁴ Economic efficiency can be defined as:⁵

"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".

- 39 More generally economic efficiency can be considered in terms of:

39.1 Maximising the value of outputs divided by the cost of inputs;

39.2 Maximising the value of outputs for a given cost of inputs;

39.3 Minimising the cost of inputs for a given value of outputs;

39.4 Improving the utilisation of existing assets; and

39.5 Minimising waste.

- 40 The continuation of dairy product manufacturing capacity at the Clandeboye Site will provide efficiency benefits to the Timaru District and the Canterbury region, especially in regard to:

- (i) minimising milk collection and product distribution transport costs;
- (ii) the continued use of substantial assets with remaining economic life;
- (iii) enabling economies of scale in production, storage and distribution that can be achieved at the site;
- (iv) the efficient renewal and upgrading of facilities at the site; and
- (v) minimizing reverse sensitivity effects at the site.

I discuss these economic benefits later in my evidence.

https://www.timaru.govt.nz/_data/assets/pdf_file/0007/736477/The-contribution-of-primary-sector-exports-from-Timaru-and-South-Canterbury-to-New-Zealand.pdf

⁴ See, 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.

⁵ Pass, Christopher and Lowes, Bryan, 1993, *Collins Dictionary of Economics* (2nd edition), Harper Collins, page 148.

Value of Investment to the Existing Consent Holder

- 41 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."* Although this is not a resource consent hearing, this section of the RMA highlights that consideration of the value and remaining useful life of assets is relevant to having regard to the efficient use of resources.
- 42 The value to Fonterra of its investment at the Clandeboye and Temuka sites can be considered in terms of either the reinstatement value of the facilities at the sites (\$1 billion for the Clandeboye Site, and \$4.13 million for the Temuka site⁶) or the foregone future earnings of the facilities on the sites if they were forced to close, downsize or have their future expansion restricted. By both of these measures, the value of investment to Fonterra as the existing consent holder is significant.

Viewpoint

- 43 An essential first step in carrying out an evaluation of the economic effects of Fonterra's Clandeboye and Temuka sites 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 district (or city) and wider regional viewpoint is adopted and sometimes even a nationwide viewpoint might be considered appropriate.
- 44 The Clandeboye Site and Temuka site are located in the Timaru District, which is part of the Canterbury Region. Therefore in my evidence I will consider the economic effects in relation to the local Timaru District and wider Canterbury regional economies.
- 45 There are also private or financial benefits associated with the continuation of Fonterra's operations at the Clandeboye and Temuka sites. Generally these benefits are not relevant under the RMA and the main focus of this evidence is therefore on the wider economic effects on parties other than Fonterra and its customers. Economists refer to such effects as "externalities".⁷
- 46 However, because Fonterra is owned by its farmer shareholders, financial benefits to Fonterra impact on the "economic (and social) wellbeing" of these farmer shareholders including those within the local community – i.e. the Timaru District and wider Canterbury region. Financial benefits to Fonterra are also relevant with respect to the "efficient use and development of natural and physical resources" and New Zealand's export competitiveness, given the importance of dairy product exports to the New Zealand economy. Therefore, my evidence will also take these benefits into account.

⁶ Source: Fonterra.

⁷ Defined 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.

BACKGROUND TO TIMARU DISTRICT AND CANTERBURY REGION'S ECONOMIES⁸

Population

- 47 Statistics New Zealand's June 2023 population estimate for the Timaru District is 48,900 or 0.9% of New Zealand's population. In 2018 population in the District was estimated to be 47,900, implying an increase of 2.1% over the period 2018 to 2023, as compared to 6.6% for New Zealand as whole. Statistics New Zealand's 'medium' population projection⁹ has the Timaru District's population increasing to 49,300 in 2048 – i.e. an average rate of increase of 0.03% per annum over the period 2023-48, compared to a projected average rate of growth for New Zealand of 0.6% per annum.
- 48 Statistics New Zealand's June 2023 population estimate for the Canterbury Region is 666,300 or 12.8% of New Zealand's total population. In 2018 population in the Region was estimated to be 622,800, implying an increase of 7.0% over the period 2018 to 2023. Statistics New Zealand's 'medium' population projections have the region's population increasing at an average rate of 0.7% per annum to 782,700 over the period 2023-48.

Employment

- 49 Employment data highlights the dependence of the Timaru District on the agriculture sector. In February 2023, 2,000 jobs (8.1%) of the Timaru District's 24,800 jobs were in the agriculture, forestry and fishing industry group, with most (an estimated 1,456 jobs¹⁰) being agricultural jobs. Dairy cattle farming accounted for 670 jobs (2.7% of total employment) and sheep, beef cattle and grain farming 540 jobs (2.2% of total employment). There were 5,100 jobs (20.6% of total employment) in the manufacturing sector, including 3,600 jobs (14.5% of total employment) in food manufacturing of which meat and meat products manufacturing accounted for 1,600 jobs (6.5% of total employment) and dairy product manufacturing accounted for 950 jobs (3.8% of total employment). Taken together, dairy cattle farming and dairy product manufacture directly account for 6.5% of total employment in the District. With the inclusion of the flow on, or "multiplier" effects, (see next section of my evidence), the dairy sector accounts for around 10% of total employment in the District.
- 50 Other important employment sectors in the District are health care and social assistance (3,000 jobs or 12.1% of the total), retail trade (2,500 jobs or 10.1% of the total), construction (2,200 jobs or 8.9% of the total), education and training (1,700 jobs or 6.9% of the total), transport, postal and warehousing (1,650 jobs or 6.7% of the total), and accommodation and food services (1,350 jobs or 5.4% of the total). Total employment in

⁸ Data in this section from Statistics New Zealand.

⁹ Statistics 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.

¹⁰ Including agricultural services jobs.

the Timaru District grew by 27.2% over the period 2003 to 2023, as compared to employment growth for New Zealand of 42.5%.

- 51 For the Canterbury region as a whole, employment data suggest the most significant sectors are healthcare and social assistance (38,600 jobs or 11.8% of the region's workforce) and manufacturing (36,400 jobs or 11.1% of the region's workforce), of which meat and meat products manufacturing accounted for 5,300 jobs (1.6% of total employment), fabricated metal products accounted for 3,950 jobs (1.2% of total employment) and dairy product manufacturing accounted for 3,150 jobs (1.0% of total employment). Other important sectors are, retail trade (32,400 jobs or 9.9% of the region's workforce), construction (31,500 jobs or 9.6% of the region's workforce), professional, scientific and technical services (25,700 jobs or 7.8% of the region's work force), education and training (25,200 jobs or 7.7% of the region's work force), and the accommodation and food services industry group¹¹ (23,000 jobs or 7.0% of the region's workforce). The agriculture, forestry and fishing sector has 16,700 jobs or 5.1% of the region's workforce. Total employment in the Canterbury region grew by 41.7% over the period 2003 to 2023.
- 52 Fonterra's Clandeboye site (and to a lesser degree its Temuka Site and the operations at Timaru Port) add important diversity to the local Timaru District economy by providing off-farm employment and incomes. Although they involve the processing of an agricultural commodity, they make the district economy less sensitive to international commodity price fluctuations.

ECONOMIC BENEFITS OF MAINTAINING CURRENT OPERATIONS OF FONETERRA'S CLANDEBOYE AND TEMUKA SITES

- 53 Closure or constraints placed on the processing capacity of Fonterra's dairy manufacturing site at Clandeboye would have negative economic impacts on Fonterra, its farmer suppliers and the Timaru District and Canterbury region generally. It would require milk from the site's local catchment area to be transported further away for processing – either to Fonterra's Darfield plant near Christchurch, and/or to Fonterra's Edendale plant in Southland. During the peak of the season these alternative sites would have insufficient surplus processing capacity and milk would have to be transported by rail and ferry to lower North Island plants. This happened during the 2023/24 peak milk production season. The available processing capacity at the Clandeboye Site results in a considerable reduction in truck and tanker kilometres that would otherwise be required. The reduction in truck and trailer distances benefits not just Fonterra and its farmer shareholders but also the wider economy through reductions in road externality costs¹². It also helps spread capacity risk across Fonterra's South Island and lower North Island plants.

¹¹ The accommodation and food services industry group is only a proxy for the tourism sector. It provides goods and services as well to customers who are not tourists, whilst tourists purchase goods and services from other industry groups.

¹² E.g. reductions in congestion, road accidents and greenhouse gas emissions.

- 54 In addition, there are a number of advantages in maintaining production and distribution capacity at the Clandeboye Site as compared to relocating capacity to potential new sites and/or the expansion of facilities at other existing Fonterra plants. The key advantages are:
- 54.1 The continued optimum use of existing relatively new “sunk” assets, which otherwise would be largely “stranded” – i.e. the continued use of plant, machinery and buildings with significant remaining economic life but which would have little if any residual value if the sites reduced their operating capacity or ceased operating and these assets had to be sold or relocated to other sites. The replacement value for the facilities at the Clandeboye Site is estimated at \$1 billion. During the last 5 years, Fonterra has invested \$320 million in capital upgrades (separate to operating expenditure) at the Clandeboye site. This is addressed in the evidence of **Ms Suzanne O’Rourke**;
 - 54.2 The site is large enough to allow for future expansions to cope with any transfer of milk and/or dairy products from other processing or distribution sites;
 - 54.3 The site is on main roads with good road network links;
 - 54.4 The site is close to Timaru Port, enabling local port facilities to be utilized for the export of 98% of the Clandeboye Site’s production;
 - 54.5 The Clandeboye Site (and Temuka site) are easily accessible for Timaru residents and businesses for skilled staff and support industries;
 - 54.6 The Clandeboye Site has a sufficient supply of good quality water, a reliable electricity supply and is of sufficient size to enable its own ocean outfall wastewater disposal (as well as utilising nearby irrigation farms for added wastewater disposal capacity); and
 - 54.7 The Clandeboye site is some distance from neighbours and effects on them can be mitigated.
- 55 A number of the Clandeboye plant’s operational input supplies, other than milk, come from the Timaru District and its surrounds. Local firms supplying goods and services to the site include engineering firms, fuel and other energy suppliers, building and plumbing firms, cleaning companies, food companies and transport companies.
- 56 Similarly for the Timaru Port and Temuka sites, most of the operational input supplies other than dairy products come from the Timaru District. Local Timaru firms’ services supplied to the sites include refrigeration services, electrical services, construction material supplies and construction services, rail and port operations, cleaning services and waste disposal services.

- 57 The Clandeboye milk processing plant currently employs 1,219 permanent full time equivalent (*FTE*) staff, most of whom, reside within the Timaru District. In addition a further 16 FTE staff are employed by Fonterra at its Hally Terrace Temuka site and at Timaru Port, giving a total of 1,235 FTEs. Their estimated wages and salaries are \$119.4 million per annum.¹³In addition the Clandeboye plant and the Temuka site spend an estimated \$65-70 million per annum on other goods and serviceswith local Timaru District businesses.
- 58 In addition to these direct economic impacts there are indirect impacts arising from:
- 58.1 The effects on suppliers of goods and services provided to the site from within the District and region (i.e. the "forward and backward linkage" effects); and
- 58.2 The supply of goods and services to employees at the site and to those engaged in supplying goods and services to the site (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 living within the Timaru District.
- 59 District and regional 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 a district economy is self-sufficient in the provision of a full range of goods and services and the district's proximity to alternative sources of supply. District multipliers typically fall in the range of 1.5 to 2.0 and conservatively taking the low point of 1.5, implies total impacts (i.e. direct plus indirect impacts) of Fonterra's current operations at its Clandeboye Site of:
- 59.1 1,853 additional jobs for local Timaru District residents;
- 59.2 \$179.1 million per annum in additional wages and salaries for local Timaru District residents; and
- 59.3 \$97.5-105 million per annum in additional expenditure for local Timaru District businesses.
- 60 At a Canterbury regional level (using a multiplier of 2.0,since the region is more self-sufficient in the supply of goods and services than the Timaru District) the direct plus indirect impacts of Fonterra's current operations at its Clandeboye Site are:
- 60.1 2,470 additional jobs for Canterbury region residents;
- 60.2 \$238.8 million per annum in additional wages and salaries for local Canterbury region residents; and

¹³ I.e. an average annual salary of \$96,680.

60.3 \$315 million¹⁴ per annum in additional expenditure for local Canterbury region businesses.

- 61 These district and regional economic impact estimates are conservative in that they exclude capital expenditure impacts. As with operating expenditure, Fonterra seeks as much as possible to utilise local suppliers of goods and services for capital expenditure.
- 62 Consequently, changes to the PDP which better protect Fonterra's current operations at the Clandeboye Site provide economic benefits, not only to Fonterra and its shareholder suppliers, but also other businesses and residents within the Timaru District and wider Canterbury Region.

Economic Benefits from Increased Economic Activity

- 63 As indicators of levels of economic activity, economic impacts in terms of retained or increased expenditure, incomes and employment within the local and regional economies are not in themselves measures of improvements in economic welfare or economic wellbeing. However, there are economic welfare enhancing benefits associated with retaining or increasing levels of economic activity. These relate to one or more of:
- 63.1 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;
- 63.2 Increased competition: Increases in the demand for goods and services allow a greater number of providers of goods and services to enter markets and there are efficiency benefits from increased levels of competition;
- 63.3 Reduced unemployment and underemployment¹⁵ of resources: To the extent resources (including labour) would be otherwise unemployed or underemployed, increases in 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 at the time and the match of resource requirements of a project and those resources unemployed or underemployed; and
- 63.4 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 quality of such services in a community can be increased if increased economic activity maintains or enhances population levels.

¹⁴ Total NZ expenditure, excluding milk and labour is \$210 million per annum. It is assumed 75% of this is spent within the Canterbury region. Note expenditure on milk is excluded from the analysis because without the Clandeboye Site it is assumed milk production would be unchanged.

¹⁵ Underemployment 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.

- 64 It is reasonable to presume that the retention of economic activity (i.e. expenditures, incomes and employment) within the local Timaru District and Canterbury regional economies as a consequence of continued operation of Fonterra's activities within the District will give rise to one or more of these four welfare enhancing economic benefits for the local community.

Economic Benefits from Significant Industry

- 65 The data and analysis in the preceding sections of my evidence highlight the economic significance of the agricultural and agricultural processing industry sectors and in particular Fonterra's operations at its Clandeboye and Temuka sites at both a district and regional level. Significant amounts of direct and indirect employment, incomes and expenditure are associated with the Clandeboye Site. Recently during the Covid pandemic, the importance of the primary sector and the related primary product processing sector was highlighted as international and domestic tourism faced unprecedented headwinds. In particular the situation underscored the dangers of "New Zealand Inc" and the local district and regional economies being overly reliant on tourism as the sole economic driver. The Clandeboye Site in particular is economically significant in both the provision of economic activity within the local district and regional economies and providing much needed economic diversity.

POTENTIAL ECONOMIC COSTS OF CONTINUATION OF CURRENT OPERATIONS AT FONTERRA'S CLANDEBOYE AND TEMUKA SITES

Lost Alternative Land Uses

- 66 Lost alternative land uses are not external costs of continued use of milk processing capacity and distribution and storage activities at the sites. The productive value of the land in alternative uses has been internalised into the cost structure of the development. In other words, in purchasing the land Fonterra has paid a price reflective of future net returns from alternative uses for the land. Such costs are not costs to be borne by the wider community.

Utilities

- 67 Externality costs can arise when utilities provided by central or local government (e.g. roads, water supply, storm water and flood control systems and wastewater disposal) are not appropriately priced. In the case of Fonterra's milk processing plant at its Clandeboye Site and its Temuka site no such externality costs arise.
- 68 Fonterra and its farmer suppliers make payments via road user charges and rates for ongoing maintenance and necessary upgrades to the state highway and local district council road networks.
- 69 With respect to Clandeboye's water supply, groundwater bores are used and the site is not reliant on Council water supply. For storm water and wastewater disposal the Clandeboye site is totally self-sufficient. At the Temuka sites, Fonterra pays user charges and rates for water and wastewater services provided by the Timaru District Council.

- 70 Therefore there can be no concerns that other ratepayers of the Timaru District are providing subsidised services to Fonterra's sites within the District.

CONCLUSIONS

- 71 Fonterra's Clandeboy and Temuka sites provide a broad range of economic benefits to not only Fonterra's shareholder suppliers but also to the broader Timaru District and Canterbury regional economies. The continued operation of the sites, without additional constraints on their efficient operation, is consistent with providing for the social and economic wellbeing of local residents and businesses. It is also consistent with the efficient use and development of natural and physical resources.

Michael Copeland

7 July 2024

APPENDIX 1

CURRICULUM VITAE OF MICHAEL CAMPBELL COPELAND

DATE OF BIRTH 3 October 1950

NATIONALITY New Zealand

EDUCATIONAL QUALIFICATIONS Bachelor of Science (Mathematics) 1971
Master of Commerce (Economics) 1972

PRESENT POSITIONS

(Since 1982) Economic Consultant, Brown, Copeland & Co Ltd
(Since 2017) Trustee, Trade Aid, Kapiti

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

2010-17 Director, Healthcare New Zealand Holdings Limited

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, Kiribati, Tokelau, Tonga, Tuvalu, 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