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Cc: Hamish Wilson, Ministry for Primary Industries

03 May 2017

Marlborough Salmon Relocation: bullet points for the Panel

Dear Louise

In accordance with our contracts with the Ministry for Primary Industries (MPI) dated 2 May 2016 and 31 August 2016 and further instructions from MPI regarding the Marlborough Salmon Farm Relocation Advisory Panel (the Panel), we provide some bullet points to support the Panel in their process. Please note, this document should be read in conjunction with the Restrictions in Appendix A. We do understand that this document will be made public and we consent to publication.

Background

We understand that the Panel has called those people who have made economics submissions to discuss their reports and comments to the Panel. In preparation for that discussion, the Panel has asked for bullet points responding to the following matters:

- the relevant points upon which they agree with opposing expert views in the materials placed before the Panel
- the relevant points upon which they differ from the opposing expert views in the materials placed before the Panel
- succinctly, the specific reasons why they say that the Panel should prefer their views to those of the opposing experts.

We also understand that the Panel has invited responses from the following:

- Bill Kaye-Blake (PWC)
- Andrew Clark (NZKS)
- Wendy McGuinness
- Trevor Offen (Kenepuru)
- Kevin Counsell

- Chris Money (EY).

In the rest of this letter, we provide the bullet points as requested. We do note that these are summary statements, and that they should be read in conjunction with the full analysis provided in our economic report, Marlborough Salmon Relocation – Economic Impact Assessment, and our two further documents, Review of the McGuinness Institute report on New Zealand King Salmon and our letter to MPI dated 11 April 2017 (both were provided to the Panel by Andrew Clark in Week 2 of the Hearing; see Part 1 of his presentation).

Points upon which PwC agrees with other experts

Economics

- The PwC analysis estimates economic benefits. It is not a cost-benefit analysis. PwC agrees with the Offen and Counsell comments.
- The PwC report uses an appropriate methodology, which provides sufficient information for decision-making without incurring the additional costs of a more complex approach (such as computable general equilibrium modelling). PwC agrees with the EY report.
- Input-output analysis assumes that additional labour and investment capital will be available. The additional economic benefit relies on the assumption of more people and investment into the region. PwC agrees with the Offen and Counsell comments and the EY report.
- The PwC report presents both GDP impacts and FTE impacts. These are two different ways to measure economic impact. They should not be added together. PwC agrees with the Offen and Counsell comments.
- Environment impacts are appropriate for inclusion in a cost-benefit analysis. PwC agrees with the Counsell comment.

Finance

- The Offen comment finds that the current operations are financially sustainable. PwC agrees with the Offen comment.

Points upon which PwC differs with other experts

Economics

- The positive result from the CBA in the Offen analysis shows that the project should go ahead. In this, PwC differs from the Offen comment.
- PwC disagrees that materiality is a relevant CBA decision-making criteria. For example, 'materiality' is not used in the 2005 NZ Treasury *Cost Benefit Analysis Primer*. The Offen comment is inserting an accounting criterion into an economics analysis.

- The Offen comment presents a future in which there is no change from the present. The analysis assumes that no additional labour will be available in the area, no additional jobs will be required or desired and no additional investment will be available. PwC disagrees with the Offen analysis that assumes the future will be exactly like the present.
- The Offen comment states that local unemployment is 2.8%. However, the 2016 rates are 5.5% for Marlborough and 4.3% for Nelson, versus a national level of 5.1%. In addition, unemployment rates are based on people in the labour force. Marlborough and Nelson have lower employment rates (working-age people who are working) than most of the country (64.8% and 59.6%, respectively, versus 66.2%). For all data, see MBIE Regional Economic Activity Report Webtool. Therefore, there is scope for more employment in the region, contrary to the Offen comment.
- The Offen comment suggests that the PwC analysis 'is likely to significantly overstate FTE's', but does not provide any analysis of employment by job title or task, or impacts on upstream or downstream industries, or a quantitative measure of 'significantly'. PwC has provided a clear analysis of FTEs based on industry and company data, which includes an analysis by expense category. PwC disagrees with both the approach and the conclusion in the Offen comment.
- The Counsell comment alludes to environmental costs but makes no effort to quantify them. PwC disagrees with this approach. It would be more helpful to decision-makers to provide information with regard to the size of environmental costs.
- Furthermore, the correct approach to making an economic assessment of environmental impacts is to evaluate both costs and benefits at the old and new sites. The Counsell comment assumes that all environmental impacts would be 'costs'. However, if relocation improves environmental outcomes in some locations on some measures, then both cost and benefits should be evaluated.
- The relocation process includes evidence of public participation in decision-making. PwC disagrees with the McGuinness comment.

Finance

- PwC reviewed several pieces of financial information, as described in an earlier report, and that financial information did not indicate any reason for concern about the financial health of the company. PwC disagrees with the McGuinness comment.
- There is evidence that NZKS actively manages its risks. PwC disagrees with the McGuinness comment.

Reasons to prefer the PwC views

- On materiality: PwC is taking a standard CBA view, while the Offen report has created a new CBA criterion with no reference to supporting material.

- On future impacts: The working-age population of Nelson and Marlborough is not fixed, so an analysis should not be based on that assumption.
- On environmental impacts: Environmental impacts should be considered for a complete CBA. However, no commenter has provided any measure of their approximate magnitude, making it impossible to quantitatively assess the statements. Furthermore, Offen and Counsell have both indicated that a CBA should include costs and benefits; for consistency, this approach should be used for environmental impacts, too.
- On overall approach: PwC has provided a quantitative analysis of economic impacts with full data and clear references. Where Offen and Counsell provide quantitative analysis, they tend to rely on PwC figures. Otherwise, they offer statements that are unsupported by careful analysis, such as with FTEs and environmental impacts. The PwC view supports evidence-based decision-making.

Yours sincerely

A handwritten signature in black ink, appearing to read 'W- VSB', with a long horizontal flourish extending to the right.

Bill Kaye-Blake
Director
Finance and Economics

Appendix A Restrictions

This letter has been prepared solely for the purposes stated herein and should not be relied upon for any other purpose. We accept no liability to any party should it be used for any purpose other than that for which it was prepared.

This report is strictly confidential and (save to the extent required by applicable law and/or regulation) must not be released to any third party without our express written consent which is at our sole discretion.

To the fullest extent permitted by law, PwC accepts no duty of care to any third party in connection with the provision of this letter and/or any related information or explanation (together, the “Information”). Accordingly, regardless of the form of action, whether in contract, tort (including without limitation, negligence) or otherwise, and to the extent permitted by applicable law, PwC accepts no liability of any kind to any third party and disclaims all responsibility for the consequences of any third party acting or refraining to act in reliance on the Information.

We have not independently verified the accuracy of information provided to us, and have not conducted any form of audit in respect of the organisation for which work is completed. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.

The statements and opinions expressed in this letter are based on information available as at the date of the letter.

We reserve the right, but will be under no obligation, to review or amend our letter, if any additional information, which was in existence on the date of this letter, was not brought to our attention, or subsequently comes to light.

This letter is issued pursuant to the terms and conditions set out in our contracts dated 02 May 2016 and 31 August 2016.