

Louise Walker
Panel Hearings Facilitator
Salmon Relocation Proposal
Marlborough Salmon Farms Relocation Advisory Panel

3 May 2017

Email: salmonfarmhearing@gmail.com

Response to Panel: Marlborough King Salmon Relocation

Dear Louise:

In accordance with the Panel's request, I provide further comment on our peer review of the PwC Economic Impact Assessment for the Marlborough Salmon Relocation ('EIA' or 'the report'). This letter should be read in conjunction with our report **Marlborough Salmon Relocation Economic Impact Assessment – Peer Review** dated 15 November 2016 and is subject to the limitations outlined in Appendix 1.

Background

We understand that the Marlborough Salmon Farms Relocation Advisory Panel ('the Panel') is seeking further information and input from various experts to support their decision-making process.

Specifically, we understand that in addition to myself:

- ▶ Bill Kaye-Blake (PwC)
- ▶ Andrew Clarke (NZKS)
- ▶ Wendy McGuinness (McGuinness Institute)
- ▶ Trevor Offen (Kenepuru) and
- ▶ Kevin Counsell

have been asked to provide additional information for this panel. EY has not been specifically requested to provide input, but at the request of MPI and NZKS are providing additional information on our peer review for the Panel.

Scope of Engagement & Assurance Ring-Fencing

The scope of our engagement was limited to a peer review of the EIA, specifically considering whether the EIA was technically robust and conducted in a manner consistent with generally accepted norms for economic analysis for this type of I/O impact analysis.

We were not required to review the underlying data nor did we have access to other data that EY may hold as a result of its position as Auditor for NZ King Salmon. In fact, our independence rules specifically required internal ring-fencing of this information to undertake this engagement for MPI on behalf of an Audit client.

In responding to the questions posed by the Panel, our responses are necessarily limited to the scope of our engagement as a peer reviewer.

The Panel has requested bullet points on the following matters, with which the balance of this letter concerns itself:

- ▶ 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. In this case we present only our conclusions as we take no view specifically on the Proposal.

Points Upon Which we Agree with Opposing Expert Views

- ▶ EY agrees with Counsell and Offen reports that the PwC report does not provide cost-benefit analysis. We understand that PwC was not asked to provide a cost-benefit analysis on this proposal, but was commissioned to provide a view as to the regional economic impacts of the proposal. An input-output analysis is one method of quantifying these types of economic impacts, including employment impacts. An EIA methodology is used to understand the economic (e.g. GDP) value add and output being generated by a proposal.
- ▶ We agree with the comments in the McGuinness report as well as those in the Counsell and Offen reports that an EIA does not consider labour market or investment constraints. The PwC analysis assumes that labour and capital will be available and/or attracted to the region to support the investment. Given our understanding of the analysis requested of PwC, this is an appropriate and understandable simplifying assumption.
- ▶ We agree with the comments in the McGuinness report that the impacts of price were not considered in the EIA, but we also note that 'it is unlikely that changes to production levels [being considered] would have significant price effects'.
- ▶ We agree with the comments in the McGuinness report that the revenue assumptions of NZKS are sensitive to changes in the prices of salmon, although we would also note that significant shifts in price would be required to significantly change the conclusions reached in the PwC report.

Points Upon Which we Disagree with Opposing Expert Views

- ▶ We disagree with the McGuinness assertion regarding EY's potential lack of independence. EY has clear independence rules and procedures. We are governed by both US Securities and Exchange Commission requirements on undertaking advisory work for audit clients, and also NZ Auditor General Guidance. Engagement acceptance must be evaluated on **both** actual and perceived conflicts of interest.
- ▶ This engagement required clearance from two Assurance Partners before it could be accepted. We sought and received specific clearance for this engagement, including from the MPI CFO and ring-fenced this engagement from any Audit or Assurance work being undertaken for NZKS. Further, our report did not specifically consider the merits of the relocation proposal, but provided a review of the methodology employed by the PwC EIA.

- ▶ Input-output analysis is based on the simplifying assumption that additional labour and capital flows into the region to meet demand which presents certain analytical risks. However, we equally disagree with assertion implicit in the Offen analysis that labour and capital markets are 'fixed' in the region. An I/O analysis does not assume that returns accrue to labour only, and Offen does not provide support for his implicit assertion no new capital would be attracted by this investment.
- ▶ We disagree with the Offen assertion that the PwC report conflates GDP output with FTE growth. These are distinct measures of activity and are reported separately in the PwC report. GDP reflects value-added in the region as a result of the investment, and the FTE growth reflects a 'social good' in terms of supporting greater regional employment.

Conclusions

- ▶ As noted in our peer review, we find that The EIA utilises an appropriate methodology, documents its assumptions well, and in our view correctly considers the key economic drivers likely to be affected by changes to salmon production in Marlborough. We therefore consider that this analysis provides an acceptable basis for decision-making. It is not anticipated that a different methodological approach would change the results of this analysis significantly enough to warrant more time-consuming, expensive approaches to analysis (such as Computable General Equilibrium or CGE modelling) which consider labour market availability and price effects.
- ▶ As our scope was limited to a peer review we take no position on the appropriateness of this investment *per se*, but find that the PwC report provides a reasonable basis for contributing to decision making.

Yours sincerely



Chris Money
Partner

Appendix 1

As agreed in our engagement letter dated 15 November 2016 we accept no responsibility whatsoever for reliance on this report other than for the purpose for which it was intended. Further, no responsibility whatsoever is accepted for persons other than those to whom the opinion is addressed, and those we have agreed in writing will be provided with the opinion.

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.

Confidentiality

This opinion is strictly confidential and must not be released to any other third party except as explicitly agreed by EY.

Limitation of Liability

EYTAS's total civil liability (including interest and costs) to you, concerning the subject matter in this opinion shall be limited to the amount agreed on 15 November 2016.

Reliance on Information

In forming our opinion, we have relied on forecasts and assumptions provided by MPI and NZKS about future events. Inevitably, such conditions and assumptions may change, with potentially material effect on the opinion we have expressed.

Third party information

Where it is stated in the report that information has been supplied to us by another party, this information is believed to be reliable at the time of receipt but we will accept no responsibility should it be subsequently proven to be inaccurate.

Publication

Neither the whole nor any part of our opinion, nor any reference thereto, may be included in any published document, circular or statement, nor otherwise published or disclosed in any way without our written approval of the exact form and context of such publication or disclosure. Such approval is required whether or not EYTAS is referred to by name and whether or not the opinion is combined with others.