

Before the Independent Hearing Panel
Appointed by the Mackenzie District Council

Under the Resource Management Act 1991 (**RMA**)

In the matter of Proposed Plan Changes 23 – 27 to the Mackenzie District Plan

Joint Witness Statement – Economics

12 May 2024

- 1 This joint witness statement is prepared in response to the direction of the Hearing Panel at paragraph [6](a) of the Minute 14 dated 7 May 2024 that:

a) expert caucusing is to occur between the Road Metals and Council experts, with Joint Witness Statements to be made available to the Hearing Panel no later than 5pm on 15 May 2024. The JWS's should identify any resolution of matters of contention (including any agreed MDP provisions) and any remaining matters of contention, with reasons provided

- 2 The Hearing Panel recorded in Minute 14 that:

[4] While not wishing to unduly limit the scope of the caucusing, we envisage that it would as a minimum focus on what appears to us to be some matters of contention, including but not limited to what is actually sought (a GIZ or a TISPZ); the extent of existing short to medium term GIZ feasible development capacity in Twizel and the wider district compared to projected and quantifiable short to medium term demand; the amount of traffic that should be enabled to access (and depart from) the intended industrial zone from SH8 and how that would be dealt with in any zoning provisions; the provision of safe and efficient multimodal links; the protection and enhancement of Significant Indigenous Vegetation and Habitats of Indigenous Fauna within the site; and feasible landscape mitigation planting taking into account vegetation growth rates in Twizel.

[5] The experts may of course identify other matters that they consider would benefit from caucusing.

- 3 The economics caucusing took place on 10 May, 2024 via telephone.

- 4 Participants at the meeting were:

- (a) Benje Patterson (BP) for Mackenzie District Council
- (b) Michael Copeland (MC) for Road Metals Company Limited

- 5 In preparing this statement, the expert witnesses have read and understood the Code of Conduct for Expert Witnesses as included in the Environment Court of New Zealand Practice Note 2023.

Background

- 6 Prior to the caucusing meeting the experts agreed the following list of topics to be addressed
 - (a) Industrial land currently available
 - (b) Industrial land future demand
 - (c) Fairlie/other Districts as alternatives
 - (d) The economic externality costs of the proposed rezoning
 - (e) The economic benefits of the proposed rezoning
- 7 These topics encompass “the extent of existing short to medium term GIZ feasible development capacity in Twizel and the wider district compared to projected and quantifiable short to medium term demand” recorded in Hearing Panel’s Minute 14 as one of the matters of contention – see paragraph 2 above – as well as other inter-related topics.

Resolution of matters in contention

- 8 MC does not dispute BP’s estimates for existing land available for industrial use in Mackenzie District centres other than Twizel – see below.
- 9 MC does not dispute BP’s forecasts for industrial land demand in Twizel and other centres within the Mackenzie District but notes that (i) such forecasts are uncertainty and (ii) there is a need for a “competitiveness margin” to be provided to enable workable competition in industrial land markets – see below.
- 10 BP emphasises that although he agrees that it makes sense to have a certain “competitiveness margin” of ensuring there is sufficient industrial land available across Mackenzie District, there is some degree of flexibility as to where that margin can occur across the District. Twizel has a very small local employment base (around 730 jobs out of Mackenzie’s 2,500 in 2023), and industrially zoned land in Takapo and Fairlie offer closer transportation access to input supplies and larger customer bases within a short drive.
- 11 BP and MC agree that the net value of lost agricultural production would be very small if the Road Metals site was rezoned for industrial use.
- 12 BP and MC agree that infrastructure servicing costs for the Road Metals site being rezoned and developed for industrial use can be internalised.

Remaining matters of contention

Industrial land currently available

- 13 MC has been advised by Road Metals' planning witness, Mr Kevin Bligh, that BP's estimate for Twizel of 11.9 ha of currently available vacant industrial land is considerably overstated. Using later imagery than BP, Kevin Bligh estimates Twizel's currently available vacant industrial land is 8.86 ha if the required 30 m setback limitation is ignored and only 6.86 ha if the required 30 m setback limitation is taken into account. Also Kevin Bligh's evidence was that existing supply may also face reverse sensitivity issues/operational constraints meaning some of available supply may be unsuitable for some industrial land users.

Note: BP has forwarded the imagery, data and assumptions he used for his assessment to Kevin Bligh and it is anticipated that he (Kevin Bligh) and the Council planner will seek to resolve the difference between the parties with respect to the current available supply of land available for industrial development in Twizel.

- 14 BP provided an estimate of available industrial land from a review of Council's e-plans that was reviewed by Council staff. These were gross areas, rather than net areas available to build. BP notes that while setbacks are relevant and will have implications for the size of structure on sites, you never have full site coverage anyway, as carparking and manoeuvring space are needed anyway. BP agrees that the differences between available vacant industrial land in Twizel estimates should be resolved between Kevin Bligh and Council Planners.
- 15 BP reemphasized that even if there is a small decrease in the amount of available industrial land in Twizel, that the currently available industrial land in Takapo and Fairlie are still alternatives that an industrial business could consider. Even if hypothetically Mr Bligh's assessment of a smaller amount of available industrial land in Twizel held, then there will still be more than sufficient zoning of industrial land including other parts of Mackenzie (Takapo and Fairlie) to meet anticipated industrial land demand through to 2040.
- 16 MC notes that Murray Francis evidence for Road Metals is that already a number of businesses have been looking to secure industrial sites in Twizel for a number of years and have been unable to do so.
- 17 BP notes that there are only a very small subset of industrial businesses, who have such specific locational requirements which mean that Twizel would be the only choice – these are generally only heavy industrial

businesses or extractive industry businesses and so should not be conflated with general business need for industrial zoning. Site selection for an industrial business generally balances several factors, with two of those primary criteria being proximity to customers (both local customers and those located in other parts of New Zealand) and transportation for inputs and finished goods. The employment centre of the District falls towards Takapo and Fairlie, and so many Twizel businesses will be servicing into these areas anyway.

- 18 Road Metals' witnesses have not re-analysed currently available industrial land in the Mackenzie District centres other than Twizel. MC considers that to the extent that BP has overstated the currently available vacant industrial land in Twizel, this is also the case for the District as a whole. Also MC does not believe land in centres outside of Twizel is a close substitute for industrial activities wishing to locate in Twizel – see below paragraphs 24 to 25.
- 19 BP points out that none of the industrial zones in Fairlie or Takapo are currently bounded by developed residential areas, and so assertions are not valid regarding any potential for overstating available industrial land in these areas.
- 20 MC notes that the constraints on existing land use appear to be “other considerations” which BP says are outside the scope of his evidence – see footnote 1 to his evidence.

Industrial land future demand

- 21 MC does not dispute BP's estimate for additional industrial demand for Twizel of 9.5 ha by 2035. This is considerably in excess of Kevin Bligh's estimate of only 6.86 ha being currently available. Also MC notes:
 - (a) Future demand projections are subject to a considerable level of uncertainty because they rely on new future average land area per ratings unit mirroring existing average ratios and this may not be the case. BP himself concedes such growth projections have “a high degree of uncertainty” (see page 7 of Attachment 1 to his evidence).
 - (b) Also for the benefits from greater choice and competition to be achieved supply should exceed forecast demand by a “competitiveness margin”. This is especially the case when I am informed by Road Metals that much of existing supply is held by a single owner.

- 22 BP reemphasizes that just because there is industrial land demand in a particular location, doesn't mean that is precisely where the industrial land must be provided – sites may end up being a short commute away. Even if it ends up being established following more work between the planners that the availability of industrial land in Twizel is closer to Mr Bligh's estimate then there would still be sufficient available industrially zoned land in other parts of Mackenzie District to satisfy demand to about 2040.
- 23 MC does not dispute BP's estimate for additional industrial land demand for the Mackenzie District as a whole but again stresses the uncertainty of such estimates, the need for a "competitiveness margin" and that land outside of Twizel is not a close substitute for industrial activities wishing to locate in Twizel – see below paragraphs 24 to 25.

Fairlie/other districts as alternatives

- 24 MC does not accept that it is appropriate to force industrial activities wishing to locate in Twizel to locate in Fairlie as suggested by BP in his evidence. To do so must result in economic and other (e.g. transport emission) cost inefficiencies. BP's own estimate is for only a 0.9 ha growth in demand for industrial land in Fairlie out to 2035 (and out to 2050) and he refers to Statistics New Zealand data showing growth in Fairlie jobs of 1.6% per annum (pa) and business numbers of -2.2% pa over the 10 years to 2023. The corresponding figures for Twizel are 3.7% pa for jobs and 4.3% pa for businesses. (Note: if Opuia (an area surrounding Fairlie) is included with Fairlie, BP estimates only 2.2 ha growth in demand for industrial land out to 2035. Opuia's growth in jobs over the 10 years to 2023 was -3.8% pa and growth in business numbers was 0.3% pa.). The data indicates that generally industrial businesses will not be indifferent as to whether they locate in Twizel or Fairlie and constraining industrial land supply in Twizel will lead to suboptimal location decisions.
- 25 MC considers it is not consistent with a less fragmented industrial base for servicing Twizel, having some new industrial businesses located 102 km (an estimated drive time of 1 hour, 9 minutes) away in Fairlie.
- 26 BP reemphasises that site selection for an industrial business generally balances several factors, with two of those primary criteria being proximity to customers (both local customers and those located in other parts of New Zealand) and transportation for inputs and finished goods. The employment centre of the District falls towards Takapo and Fairlie, and so many Twizel businesses will be servicing into these areas anyway. Twizel is located further from primary logistical nodes (such as Timaru and Lyttleton's ports)

than Takapo and Fairlie, and from the major population centres of Timaru and beyond.

- 27 MC also considers that similarly having demand for industrial land in Twizel instead being diverted to neighbouring Districts to the Mackenzie District because of inadequate supply in Twizel is suboptimal.
- 28 BP wishes to reemphasize that even if the availability of industrial land in Twizel is closer to Kenvin Bligh's estimate then there would still be sufficient available industrially zoned land in other parts of Mackenzie District to satisfy demand to about 2040.

The economic externality costs of the proposed rezoning

- 29 MC does not consider there are any significant economic externality costs from the proposed rezoning:
 - (a) With respect to the opportunity cost of removing the proposed rezoning site land from agricultural use:
 - (i) As covered in MC's evidence, this is not an economic externality cost. This cost is internalised into the cost structure of the land owner/developer and ultimately the industrial users of the land. The cost does not need to be met by the community at large.
 - (ii) In any case it is the evidence of Murray Francis that the current agricultural use of the site is low intensity and the net value of agricultural production is minimal. Also he is advised by Road Metals' planner, Mr Kevin Bligh, that dairy farming and mixed cropping on the site (two of the higher value agricultural land users referred to my BP in the report attached to his evidence) are not permitted activities on the site.
 - (iii) Any loss in agricultural production would only occur, once/if the site is developed for industrial use.
 - (b) With respect to greater fragmentation and loss of agglomeration economies from having industrial activities close together:
 - (i) If the existing available industrial land in Twizel is not sufficient and/or is unsuitable to meet demand without the rezoning, there will be greater fragmentation if the town's new industrial needs are serviced from outside of Twizel – e.g. Fairlie and/or other Districts.

- (ii) The site proposed for rezoning has adjacent land potentially suitable for industrial use and therefore potentially greater benefits from less fragmentation/greater agglomeration economies in the longer term. This is not the case for the existing vacant industrial land in Twizel.
 - (c) With respect to servicing costs:
 - (i) As stated in MC's evidence, the developer of the Road Metals site and subsequently occupiers of the site (via purchase prices or lease payments) will be required to meet the capital costs of infrastructure connections. They will also meet ongoing O&M infrastructure costs via rates, user charges, petrol taxes and road user charges. Therefore such costs will be internalised and are not economic externality costs to be borne by the community in general. The s42A report appears in agreement stating "with appropriate planning and development contributions, and further modelling, the addition of the new industrial area is feasible from an infrastructure servicing perspective" (para 155).
- 30 Although BP agrees that the agricultural opportunity cost for this particular site is very small, and that infrastructure services costs can be internalised, he does not agree with the comments regarding fragmentation. Mackenzie District is a very small District from an economic perspective, with just 2,500 jobs, the current industrial land appears to only be sparsely used and so further rezoning of an additional tract of land could encourage an even more fragmented development pattern. Rather than risk further fragmentation of industrial land in Mackenzie, it would be prudent to first pursue ways of encouraging the efficient development of industrial properties within existing general industrial zones.

The economic externality benefits of the proposed rezoning

- 31 MC considers that there are a number of positive economic externality benefits from the proposed rezoning. These include:
- (a) Greater choice and therefore cost savings and or/benefits (increased efficiency/greater productivity) for new industrial land users wishing to locate in Twizel with consequent benefits for their customers.
 - (b) Reduced fuel use and vehicle emissions as compared to new industrial land users being required to be based outside of Twizel (e.g. in Fairlie or in other Districts).

- (c) Greater competition in the market for the provision of industrial land in Twizel. The concentration of ownership and limits on the amount and suitability of the land that is currently available are justifications for the proposed rezoning. MC does not accept the contrary view DP expresses at paragraph 24 of his evidence, and which appears at odds with the basic tenets underpinning the NPS-UD and what MC considers to be the efficiency benefits from greater competition and a "competitiveness margin" in industrial (and other) land markets.
 - (d) Provision for future growth in the general vicinity of the proposed rezoning site, enabling less fragmentation and greater agglomeration economies.
 - (e) Reduced reverse sensitivity/compatibility issues – i.e. benefits for both residential and industrial land users.
 - (f) Reduced fragmentation and greater agglomeration benefits – as compared to alternative locations such as Fairlie and other Districts.
 - (g) Greater employment, incomes and expenditure in Twizel and the Mackenzie District as compared to out of the District locations being chosen if no rezoning occurs.
 - (h) Greater diversity in the local economy if out of District locations are chosen if no rezoning occurs.
 - (i) Potential for rezoning of existing industrial land to residential land if this is more compatible given nearby residential development.
- 32 BP does not agree with MC's economic externality benefits as presented. BP emphasises that many of MC's assertions are largely conceptual and he has not appropriately applied them to the local context through any detailed analysis of data such as land pricing, business and industry demography, or customer demand patterns that occur across various locations in Mackenzie District and how Twizel fits within that context.

Conclusion

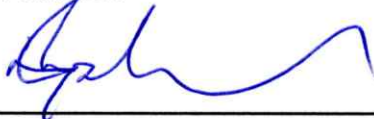
- 33 On the basis of data provided to him by Road Metals' planner, Mr Kevin Biiigh, MC considers that demand for land suitable for industrial development in Twizel will exceed available supply before 2035. The proposed rezoning will generate a number of significant economic externality benefits. There will be no significant economic externality costs if the proposed rezoning of the Road Metals site is allowed.

- 34 BP wishes to reemphasize that even if the availability of industrial land in Twizel is closer to Kenvin Bligh's estimate then there would still be sufficient available industrially zoned land in other parts of Mackenzie District to satisfy demand to about 2040. Site selection for an industrial business generally balances several factors, with two of those primary criteria being proximity to customers (both local customers and those located in other parts of New Zealand) and transportation for inputs and finished goods. The employment centre of the District falls towards Takapo and Fairlie, and so many Twizel businesses will be servicing into these areas anyway. Twizel is located further from primary logistical nodes than Takapo and Fairlie, and from the major population centres of Timaru and beyond. BP also contends that MC's benefits are conceptual and have not been demonstrated with objective analysis related to the size, shape, and behaviours that persist with in data from across Mackenzie.

Dated 12 May 2024



Benje Patterson



Michael Copeland