

BEFORE BAY OF PLENTY REGIONAL COUNCIL

IN THE MATTER of the Resource Management Act 1991

AND

IN THE MATTER of Lake Rotorua Nutrient Management - Proposed Plan Change 10 to the Bay of Plenty Regional Water and Land Plan under clause 8B of Schedule 1 to the Act

BETWEEN **ROTORUA LAKES COUNCIL**

Submitter

AND **BAY OF PLENTY REGIONAL COUNCIL**

Plan Change 10 Proponent

**SUMMARY STATEMENT OF EVIDENCE OF PHILIP MARK OSBORNE
(Economic effects)**

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1. My name is Philip Mark Osborne. I am an Economic Consultant for the company Property Economics Ltd, based in Auckland. My experience and qualifications are set out in my evidence in chief.
2. My evidence is provided on behalf of Rotorua Lakes Council (RLC) and relates to the efficient, effective and appropriate management of nitrogen emission into Lake Rotorua in achieving the objectives set out in the Bay of Plenty Regional Policy Statement (RPS) based on the current environment and the potential economic costs and benefits associated with existing and potential land use activities.
3. The Rotorua economy is both a growing economy and one which is highly reliant on its rural backdrop. In the last quarter of 2016, the Rotorua District has continued to see promising levels of economic growth with annual GDP (4.1%) and productivity levels materially higher than those rates experienced nationally.
4. While population growth in the District over these past 10 years has been modest (3.7%), future predictions indicate a more robust growth rate with BERL (unrestrained) projections at 23% over the next 20 years. More recent Statistics NZ projections have also been reviewed to show substantially greater growth rates that move in line with the BERL projections over this period.
5. The natural environment, of which Lake Rotorua plays a central role, is critical to the economic performance of Rotorua, with the tourism sector contributing 9.8% of the District's GDP over the past 12 months. With over 10,000 daily visitors, the District's population peaks over summer at 100,000 people.
6. Plan Change 10 (PC10) to the Operative Regional Water and Land Plan (RWLP) seeks to reduce the level of nitrogen discharging into Lake Rotorua through land use and other activities. The Lake represents a significant strategic asset both in terms of its economic, social and cultural value and so its sustainable management is seen as a fundamental objective from an economic viewpoint.
7. PC10 currently seeks to reduce nitrogen discharge to 435 tonnes by 2032 through a number of mechanisms including reducing allocations to rural activities, limiting nitrogen allocations to some urban activities, buying allocated nitrogen rights and efficiency and management improvements.

8. PC10 is based on the allocation of nitrogen discharge rights to land use activities. In proposing the plan change process, Bay of Plenty Regional Council (BOPRC) has sought to have regard to a number of matters including equity, existing activity and investment, future flexibility and direct economic impact.
9. On this basis, PC10 proposes the following:
 - (a) Nitrogen rights are allocated based on a sector average grandparenting process based on allocations under Rule 11 of the RWLP using 2001-2004 land uses as a benchmark; and
 - (b) From 2022 onwards, nitrogen rights can be traded in an open market.
10. RLC raised several concerns in its submissions on PC10 specifically on these points and their potential impact upon the economy and equity within the Rotorua community. These concerns included:
 - (a) The limitation of nitrogen discharge from the Waste Water Treatment Plant (WWTP) to an implied cap of 30 tonnes per annum with no identified opportunity for increase;
 - (b) Objectives and policies that do not preclude the reduction of allocations from urban loads;
 - (c) Concerns over the level of economic impacts presented with specific attention to the rural and rural supply communities;
 - (d) Concerns over the impacts on iwi land holdings;
 - (e) Concerns over the objectives of the Incentives Scheme in relation to economic impacts and the timing of commencement of this scheme.
11. The concerns raised in the RLC submissions relate directly to the economic well-being of the entire Rotorua community, its growth, and the distributional impact felt by specific and important sectors and participants within its community.
12. Having reviewed the economic material relating to PC10 in relation to RLC's concerns, there are several issues that arise in terms of the overall economic

costs and benefits associated with the mechanisms utilised to implement PC10.

13. While some discussion has been undertaken regarding the undeveloped land within the Lake Rotorua catchment (with specific reference to iwi land), I have been unable to find an assessment of the economic impacts on the undeveloped land that is impacted through the proposed nitrogen allocation mechanism. Similarly the economic assessment appears to be focussed on the impacts of existing rural activities. If the nitrogen allocations do indeed represent a cost to the community then including them in the assessment of land uses as a current cost may result in a different outcome to the assessment of economic impacts.
14. An important consideration on this point is that some of these perceived inequities and costs may already be present due to the establishment of Rule 11 in the RWLP. From an economic viewpoint however this would not affect the relative economic costs and benefits of different mechanisms and allocations because a 'remedying' of such inequities would be seen as an economic benefit of PC10.
15. I have addressed three key concerns in my evidence-in-chief:
 - (a) The nitrogen allocation approach;
 - (b) The inclusion of urban infrastructure; and
 - (c) The potential costs of a moratorium on nitrogen trading and the utilisation of \$40 million of public funds to buy trading rights.
16. When a cost of land use is internalised and managed within an economy there are inevitably winners and losers. Firstly, it is considered that the public or community cost of continuing to accept current levels of nitrogen into Lake Rotorua is too high in terms of the benefits accrued through the activity discharging the nitrogen. As such it is considered appropriate to allocate reducing nitrogen rights to land owners as inputs into the production process.
17. While the grandparenting approach to nitrogen allocation (with sector averages) proposed through PC10 recognises the current level of investment for existing users, it does not address either the loss for those currently not fully utilising their land, nor does it consider the efficiency of this nitrogen use.

18. There are several legitimate reasons why rural land sits undeveloped or underdeveloped in the Lake Rotorua catchment. One key contributor is the lack of capital; essentially this acts as a barrier to entry for some land owners whose properties may be more productive than those currently operating. The allocation of nitrogen rights proposed in PC10 adds additional economic hurdles to these land owners. At an estimated cost of \$400/kg the nitrogen rights allocated to existing uses represent over \$182 million, significantly increasing that barrier and rendering land unviable that would be potentially more productive than current land use activities.
19. An allocation based on pre-existing operations like that currently proposed in PC10 simply, in my opinion, serves to reinforce existing inefficiencies and create additional barriers to the Rotorua rural economy becoming more efficient and sustainable in the long term.
20. While the transactional and redistribution costs of a natural capital approach are potentially higher than the comparative costs of a grandparenting approach, these costs can be mitigated through the facilitation of a transition by way of information provision, utilisation of an incentives scheme and incorporation of a viable transition period. The economic assessment undertaken for PC10 highlights the gap between the current land use and that which would be sustainable in the long-term under a natural capital scenario. A natural capital approach would allow historical inefficiencies to be rectified rather than perpetuated and, in the case of allocating tradeable rights, would reinforce them with additional capital rights.
21. As noted earlier, population growth in the Rotorua District has not been rapid over the past decade, however there are converging projections that would suggest the District could see greater levels of growth moving forward. The ability for community infrastructure to efficiently accommodate a larger population plays an important role in this growth being realised.
22. With a current increase of over 40% in population during peak seasons, the ability for infrastructure to sustain greater levels of tourism is also subject to the flexibility by which PC10 treats wastewater infrastructure in Rotorua.

23. The potential for PC10 to restrict this growth comes at a significant risk and should be, in my view, better understood and recognised in the PC10 provisions. Adherence to the restrictions (and potential reductions) also comes at considerable implementation costs. While these implementation costs could be weighed against the cost of the community buying nitrogen rights after 2022, the risk of financial restrictions could lead to something less than an economically efficient outcome for the community.
24. The inclusion of a tradeable rights programme has clear economic merit, improving flexibility and potentially improving overall land use efficiencies. While there is clearly some certainty in the suspension of trading beyond the incentives scheme until 2022, there are inevitably economic costs also. To my knowledge there is no assessment of the relative costs and benefits associated with this approach. Given the dynamic economy in which Rotorua sits it is important, in my opinion, that the costs of restricting land use changes so fundamentally is weighed against the costs of the incentives scheme operating in an open market with a set agenda.
25. Overall the assessment of PC10 has provided some discussion regarding the economic impacts beyond direct impacts on existing land use activities. However the quantification and relativity impacts under different approaches has had limited consideration.
26. The adoption of an allocative approach for nitrogen rights utilising a grandparenting (with sector averages) methodology is likely to have significant impacts on allocative efficiency and equity over the long term. While the direct economic impact of potential changes to land use profitability have been assessed through the section 32 evaluation, this assessment does not, in my opinion, form a sound basis to assess the potential economic costs associated with the approach.
27. Any risk to the growth of Rotorua's population base is likely to result in economic cost. Given the level of this risk, it is recommended that PC10 provides for public infrastructure with greater flexibility and potential allocation.
28. Given the need for flexibility for land use change there is an economic concern regarding the potential costs associated with the moratorium on trading until

2022. While the concerns that have led to this proposed moratorium are acknowledged, it is currently unclear if an assessment has been undertaken illustrating the potential risk to the economy of restricting land use changes for this period of time.

29. Overall, it is my opinion that the economic assessment of PC10 does not consider adequately all potential and pertinent economic costs and benefits. When considering the guiding principles under Policy WL 5B of the RPS, as well as the additional considerations of the Stakeholder Advisory Group, I consider an alternative allocation methodology, which in this case is a form of the natural capital approach, is more likely to meet the requirements of economic efficiency and equity for the Rotorua community.

Phil Osborne
6 March 2017