

29 August 2011

International Freight Transport Services Inquiry
New Zealand Productivity Commission
P O Box 8036
WELLINGTON 6143

INTERNATIONAL FREIGHT TRANSPORT SERVICES ISSUES PAPER

The Palmerston North City Council is pleased to be able to make a submission on the Productivity Commission's International Freight Services issues paper.

Palmerston North Economic Well-Being Strategy 2010

The Council approved in June 2010 a new economic well-being strategy, which took a much broader approach to the economic development issues facing the city compared with previous strategies, which were primarily focussed on business development issues. The City Economic Well-being Strategy has six key drivers - one of these drivers is "Improving Connectivity". We therefore welcome the Commission's interest in this key aspect of our connectivity as a nation and region.

This submission identifies key information to contribute to the discussion on factors influencing the accessibility and efficiency of international freight transport services available to New Zealand firms and recommends further research is required on the barriers to entry for the development of new international airport services.

Logistics and Supply Chain Sector in the Manawatu Region

Palmerston North City Council has completed a profile of the logistics and supply chain sector, following work to identify key growth sector in the city. Since 2000 the city has experienced faster jobs and earnings growth (salaries and wages and self-employed earnings) than the national average and the logistics and supply chain sector has been a significant contributor to this growth.

Palmerston North is already a significant hub for domestic air freight and expects that role to continue to increase in response to further growth in logistics and supply chain business activity in the region. The logistics and supply chain sector accounted for 11% of employment in the Manawatu region in February 2010 and had experienced employment growth of 47% between 2000 and 2010 compared with national employment growth in the sector of just 4% over this period.

Palmerston North is a key central servicing point for the Taranaki, Manawatu-Wanganui, Hawkes Bay, Wairarapa and Wellington regions, an area with a combined population of close to 1 million people. With a further 1 million people in the South Island, the city is a key midpoint in servicing New Zealand's 4.3 million population. A recent New Zealand Transport Agency report¹ has noted the region is a key staging point for relatively high value import and domestic freight between Auckland and Wellington and between Auckland and the South Island.

Part of the success of the Manawatu region as a logistics hub is the ease of business for logistics operations in Palmerston North and Manawatu District – businesses are located close to the city airport which is rarely closed and is very efficient, trucks can get in and out of the region in any direction relatively quickly at any time of the day and there is good railway access.

State Highways 1, 2 and 3 intersect in the region, offering connections to Wellington, the Wairarapa, Hawkes Bay and Taranaki regions. State Highway 1 is the key connection for the region to the Ports of Auckland, Tauranga and Wellington and Auckland International Airport.

Rail offers a significant freight hub in Palmerston North with rail lines to the west and east connecting with the North Island Main Trunk. The \$750 million funding package announced by the government in the 2010 Budget offers the potential for KiwiRail to increase its share of national freight volumes through the ability to offer faster delivery times for customers.

Palmerston North International Airport is fortunate to be well located in terms of its central location in the North Island and New Zealand. It is one of three significant domestic air freight hubs in New Zealand, offering easy road access for freight to and from the airport, proximity to the Main Trunk rail line and a lack of any restrictions on hours of operation.

A copy of the profile is enclosed.

International Airfreight

Reports commissioned from McDermott Fairgray Ltd and the New Zealand Institute of Economic Research by Palmerston North City Council in 2000 and 2001 identified there was, in theory, sufficient freight generated in the southern North Island region to justify an international airfreight service in volume and value terms. It also suggested that further research is justified of the potential for the development of international air freight services and enhanced distribution capacity to reduce constraints to economic growth in the southern North Island (the research was based on a region covering the Taranaki, Hawkes Bay, Wellington and Manawatu-Wanganui regions).

Significant benefits that were identified from the development of an international freight hub in Palmerston North were reduced land transport costs for exporters from the southern

¹ Hyder Consulting (NZ) Limited (2009) *Central Region Freight Analysis*

North Island and for South Island producers which currently ship air freight cargo to Auckland by road (and potentially rail) and for importers with distribution facilities based in the region such as Ezibuy. There were also advantages for exporters of perishable commodities, particularly from the Hawkes Bay and Horowhenua, with significantly reduced transit times to the airport due to the shorter distances and significantly less congestion on key routes.

The research also identified that the strong connection between international air freight and international air passenger services meant it was not feasible to envisage the development of international air freight services without the development of passenger services. Major global economic turmoil since 2008 has proved challenging for the development of new international air connections. However, a presentation by Kevin Bowler, Chief Executive of Tourism New Zealand, to a Tourism Symposium in June 2011 noted there has still been development of new air services to New Zealand with China Airlines, Jetstar, Air Asia and China Southern Airlines recently commencing services. He also noted there had been extensive airport bidding, with incentives to encourage these airlines to begin services to New Zealand.

The extent of financial incentives to attract and retain air services, and the potential to cross-subsidise these from other airport revenue, may be inconsistent with the provision of accessible and efficient services for New Zealand exporters and imports. It also creates the potential for further consolidation of air freight and passenger services in Auckland. The level of financial resources available for bidding for air services has significant potential to limit the development of international airfreight services in other centres when those smaller airports do not have the resources to match the level of bidding offered by Auckland or Christchurch airports.

There are also concerns that government border agencies (biosecurity and customs) have not always been co-operative in the development of new international airport services, which could also prove to be a further barrier to the development of new international air freight airport services at another North Island centre as a competitive alternative to Auckland International Airport.

Further Research Required

Further research is required on the barriers to entry for the development of new international air freight services and the potential for Auckland International Airport to limit competition in the local market.

Yours sincerely

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