

T A I N U I G R O U P

H O L D I N G S L I M I T E D

27 February 2012

Inquiry into International Freight Transport Services
C/- New Zealand Productivity Commission
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Dear Sir/Madam

SUBMISSION ON DRAFT INTERNATIONAL FREIGHT SERVICES INQUIRY REPORT – JANUARY 2012

- 1.0 Introduction and General Commentary
- 1.1 Tainui Group Holdings (TGH) welcomes the New Zealand Productivity Commission's draft report on Freight Services dated January 2012. TGH has a particular interest in the findings and recommendations arising from this important study given the work it is currently undertaking to establish an inland port and logistics hub in the Waikato.
- 1.2 In particular TGH acknowledges the challenge faced by New Zealand and identified in the Commission's findings and recommendations in F1.2 (on page 228) which states:

"New Zealand's small home market and distant location pose difficult challenges. The costs of being economically distant from key markets – both in terms of pure transport costs and the opportunity costs of time – are substantial impediments to New Zealand's ability to participate effectively in the global economy. Improving New Zealand's international freight system will help to mitigate its geographical distance to markets and raise its ability to participate effectively in the global economy. A more efficient and effective freight system can raise the prosperity of New Zealand's businesses and workers and enhance consumers' purchasing power."

- 1.3 TGH, through its Inland Port and logistics hub project at Ruakura in Hamilton is actively seeking to make a positive contribution to New Zealand's global competitiveness and is pleased to see that the Ruakura Inland Port can potentially assist in addressing many of the issues identified by the Commission in its draft report. TGH has commissioned extensive research into this opportunity and taken

expert advice on the operation of Inland Ports to quantify the benefits that will be derived from such a port at Ruakura, including:

1. The demand for and commercial viability of the Ruakura Inland Port;
 2. The positive impact the Ruakura Inland Port will have on the Cost Benefit Analysis of the Government's investment in the Waikato Expressway; and
 3. The need for long term strategic planning for such facilities and the integration of and connectivity to, the national road and rail system to be aligned with such activities.
- 1.4 These reports outline the rationale for Ruakura and identify many of the ways in which it will address the challenges outlined in the Productivity Commission's draft report as well as broader future issues faced by New Zealand such as increased urbanisation, increased environmental awareness, rising oil prices, etc.
- 1.5 Ports can be a choke point, because delays or poor reliability in them can have cascading impacts on later stages in the supply chain. For this reason TGH recognises and supports the need to move goods quickly through Port infrastructure.
- 1.6 TGH believe however that this will only be efficiently achieved through associated freight handling facilities that can better leverage existing (and planned) road and rail networks in areas that are less congested and also have ample land to enable and facilitate the co-location of other freight and logistics providers/distributors to the same location to further enhance efficient freight handling and conveyance of exports and imports.
- 1.7 On that basis, TGH wishes the inquiry panel to reconsider the suggestion in Section 8.4 of its report that section 166 of the Resource Management Act be modified to include seaports alongside airports as Requiring Authority's in the list of Network Utility Operators. While the suggestion is that this would promote efficiency by allowing expansion of a seaport's land area to be assessed alongside other possible strategies for expanding capacity, TGH believes that this will in fact result in an imbalance in the comparison of such options, particularly with regard to sensitive areas with significant social and environmental benefits.
- 1.8 TGH supports in principle the Commission's recommendation that a National Policy Statement (NPS) covering transport infrastructure be developed that would shape the National Land Transport Programme, and feed into Regional Land Transport Programmes, both of which have statutory weight. This will assist regional and local authorities in prioritising land uses when making planning decisions.
- 1.9 Like the Productivity Commission, TGH has identified that the imbalance in container traffic is an issue for New Zealand as a net exporter. While on the whole New Zealand being a net exporter is a positive TGH believes that considerable gains can still be made in New Zealand's overall freight network to address the large directional imbalances in flows of freight (containers) and the major impact this can have on costs and prices because of the uneven use of freight capacity on each leg makes the overall operation much less economic. In particular, New Zealand needs to encourage and embrace strategic opportunities such as Ruakura where freight infrastructure can be provided to better coordinate imports and exports thus minimising the inefficiencies of trucks and rail wagons carrying significant numbers of empty shipping containers on one leg of a journey. An example of where these potential synergies could be realised is with Fonterra's Hamilton (Crawford Street) freight hub which requires empty containers in and full containers out, whereas

Ruakura (3km away) will primarily receive full containers in with empty containers out.

1.10 TGH notes that in New Zealand Ports are predominantly vertically integrated, whereas overseas ports commonly adopt a 'landlord' model, where the port owner offers contestable contracts to terminal operators. TGH supports the Commissions suggestion that competitive markets generally do a good job in generating efficient outcomes and stimulating productivity improvements and that the 'landlord' model would thus improve the level of contestability between terminal operators and in-turn improve price and service for port customers.

1.11 TGH has previously noted Treasury's National Infrastructure Plan and the conclusion that:

"Increases in freight movement will put pressure on New Zealand's road, rail and port infrastructure. Developing these networks to provide the right level of service in the right location, and support the export sector will be a key focus of transport infrastructure providers."

1.12 Consequently there is little doubt that meeting these growth needs will require well-considered investment decisions, as inadequate investment in any part of the supply chain generates increased costs (e.g. congestion costs and costs of delays) in other parts of the chain and thus to customers. Equally excessive investment in the wrong location or the wrong sort of investment, on the other hand, is wasteful. Ruakura presents an opportunity to match freight demand to progressive and coordinated infrastructure provision; in a location that builds upon existing and planned national road and rail networks.

1.13 Many of the current constraints in the supply chain are the result of uncoordinated decision-making by organisations. Although making individually sensible decisions to invest in infrastructure; the collective result to date is sub-optimal – such decisions resulting in missed opportunities, or scarce capital wasted in duplicate infrastructure. Hence TGH supports the Productivity Commission recommendation that integrated planning, at a National, Regional, Local and transport level needs to be encouraged; and particularly driven by a top down National led approach.

1.14 Accordingly, TGH believes the National Infrastructure plan should be one of the primary documents to coordinate infrastructure investment, on the basis that the associated legislative framework would provide for that document to flow through to regional planning decisions in a clear and transparent manner. That would further allow private companies to make decisions based on this plan with sufficient certainty. As a result this is one way where the potential for improved coordination between the Government's plans for infrastructure investment in road and rail could be improved.

1.15 The Infrastructure Game example in box 13 (page 120) demonstrates exactly the potential that Ruakura has to address the issue of 'minimum efficient scale', being equi-distant to both the Ports of Auckland and Port of Tauranga. By TGH investing in infrastructure that both the Ports of Auckland and Tauranga have equal access to avoids the risk that neither seaport will invest in the infrastructure on site in order to avoid the costs associated with over-investment which would otherwise see a sub-optimal outcome for both the ports concerned and their customers. Accordingly Ruakura allows the potential benefits of economies of scale to be exploited.

- 1.16 TGH also recognises that a freight system with a single essential link in the supply chain exposes shippers and consumers to the risk of having no freight service should a failure occur at that point. The recent industrial issues at the Ports of Auckland are a prime example of this. In contrast, duplication of infrastructure is expensive and undermines potential economies of scale. Shared infrastructure such as that proposed at Ruakura therefore provides the benefits to the full spectrum of exports and importers without the need to duplicate the investment in infrastructure, while at the same time providing better assurance of business continuity.
- 1.17 TGH's proposal at Ruakura also allows the "chicken and egg" challenge (on page 122) to be effectively addressed by:
1. Acting as an intermediary providing infrastructure to exporters, importers and transporters; and
 2. Staging of the development to allow the investment in infrastructure to match demand but identifying the full extent of land required to provide infrastructure at the outset thus providing long term security for the freight network.
- 1.18 TGH supports the continued development and refinement of the Upper North Island Freight Plan (box 14, page 126) given the importance of these Regions to New Zealand's economic well-being.
- 1.19 Ruakura avoids the "Investors' dilemma" referred to on page 136. It will also minimise the need for the Government to invest in further road and rail infrastructure, as Ruakura seeks to leverage the commitments already made by the Government in this area through the Roads of National Significance (RONS) policy and KiwiRail turnaround plan.
- 1.20 TGH believes there needs to be competitive forces in place through-out all aspects of the supply chain in order to achieve the productivity sought and ensure New Zealand's exports remain competitive in the international market. As discussed above, Ruakura allows the benefits of inter-port competition in New Zealand to be retained while at the same time allowing the benefits of achieving an efficient scale through consolidation to be achieved.
- 1.21 TGH is very aware of the external costs generated by the international freight logistics chain and in particular the impacts on the environment, many of which are detailed in table 13.3 on page 223 of the report. Waikato-Tainui seeks to lead in this area and therefore strongly believes that New Zealand needs to look at more sustainable ways to deliver international freight services. TGH believe that the development of the Inland Port at Ruakura is very much a part of this solution, particularly with regard to reducing greenhouse gas emissions, congestion, road accidents and pollution of the marine environment.
- 1.22 In summary the development of an Inland Port and logistics hub at Ruakura presents a unique opportunity for New Zealand due to its:
1. Location, equi-distant to the Ports of Auckland and Tauranga and directly adjoining the East Coast Main Truck railway line and the proposed Hamilton section of the Waikato Expressway;
 2. Size (600 hectares) allowing exporters and importers to locate in the same area thus better addressing directional imbalances in flows of freight; and
 3. Single ownership, allowing the development to be master planned and investment staged to match demand.

1.23 TGH is well advanced in delivering this opportunity and this is reflected in the regulatory processes which are now well underway, including:

1. The Waikato Regional Council (WRC) through its Regional Policy Statement (RPS) having identified the Ruakura growth cell of Hamilton City for employment purposes based around the development of the Inland Port and logistics hub;
2. Hamilton City developing a structure plan for Ruakura based around the Inland Port for public notification as part of its District Plan review in November 2012; and
3. NZTA incorporating into their planning and design for the Hamilton section of the Waikato Expressway interchanges to facilitate and improve access to Ruakura.

1.24 TGH supports the work completed by the Productivity Commission and looks forward to making a positive contribution to meeting many of the challenges identified in the draft report.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Mike Pohio', written in a cursive style.

Mike Pohio
Chief Executive