

Improving Economic Resilience

Submission to the New Zealand Productivity Commission from the New Zealand Port Company CEOs Group

The New Zealand Port Company CEOs Group ("**Group**") welcomes the opportunity to submit on the New Zealand Productivity Commission enquiry into "Improving Economic Resilience". The Group comprises the CEOs of Northport, Ports of Auckland, Port of Tauranga, Eastland Port, Napier Port, Port Taranaki, CentrePort, Port Marlborough, Port Nelson, Lyttleton Port, PrimePort Timaru, Port Otago and Southport. These ports are an essential part of New Zealand's international and domestic supply chain.

The Group was grateful for the opportunity to meet with the Commission on 29 March. This submission should be read in conjunction with the feedback provided at that meeting. Likewise regular feedback provided by the Group to the Ministry of Transport in the context of the Ministry's Long Term Freight Strategy is also very relevant.

The current configuration of New Zealand ports is the result of New Zealand's geography, topography, historical settlement patterns, and market forces. The sector has not been heavily regulated since the late 1980s. At that time activities at certain ports were restricted. Only four ports – Auckland, Wellington, Lyttleton and Port Chalmers were allowed to handle containerised cargo. This illustrates the folly of Government regulation. By far the largest container port today is Tauranga – prohibited from handling such traffic under the previous regulated regime.

The market is dynamic. This enhances resilience. Earthquakes, floods, storms and disruptions caused by global pandemics have all had effects mitigated by the unregulated market's ability to adapt. Northport and Tauranga were able to take extra capacity to help ease COVID related congestion at Ports of Auckland. Napier and other ports were able to expand capacity when Centreport and Lyttleton experienced earthquake damage. Napier and Eastland Port have been able to adapt operations quickly to compensate for disruptions to the supply chain caused by severe flood related damage to road and rail.

This point highlights the fact that we are fortunate to have the configuration of ports spread around the country from a resilience/lifelines perspective.

Much of the commentary about New Zealand's current ports configuration is made from the perspective of population size. New Zealand is compared with Singapore, Hong Kong, Denmark, or Israel. The point is made that New Zealand has 13 international ports, while these other jurisdictions have one or two ports. These people overlook the fact that Singapore is fractionally larger in land area than Lake Taupo, Hong Kong is smaller than the land occupied by Christchurch, Israel has less land than the Waikato and Denmark would fit inside the boundaries of Canterbury with plenty of land to spare. A one or two port model is perfectly feasible with these land areas.

A more realistic comparison is made with Japan or Great Britain and Northern Ireland. The land areas are roughly similar, and while topographies are in some ways less of a challenge

for both these jurisdictions than it is for New Zealand, they too have a very similar port configuration to that in New Zealand.

There is much talk about the need for New Zealand to develop a “hub and spoke” model for our ports. Under such a model there would be a limited number of export ports able to cope with very large ships. Other ports would still exist but they would essentially be domestic in focus and would be using coastal shipping to take freight to or from the “hub ports”. Global trends towards larger ships may well take New Zealand in this direction, but such a model is many years away from becoming the reality. To become a reality it would require substantial further investment in the “hub ports” to allow them to cope with the extra volumes this status would require. It would also require substantial upgrades to road, rail and coastal shipping capacity. That upgrade would take many years to deliver.

We suggest strongly that the Commission not get distracted by those advocating either a single “mega port” future or a “hub and spoke” model.

Instead of a focus on theoretical constructs, the Commission should focus on the short and medium term need to invest in resilient road and rail corridors to and from our international ports and inland ports supplying these. While our ports are, in themselves, very resilient and able to withstand or recover quickly from natural disasters, our road and rail networks cannot. Likewise these critical freight corridors are increasingly subject to restriction at a local government level. Central Government should ensure that once the critical freight corridors are identified, they be treated as road and rail systems of strategic economic importance. They should not be inhibited by local planning rules that might seek to impose curfews, noise limits, traffic calming etc.

Events over the last ten years have shown that road and rail links have been severely disrupted and can take years to be fully repaired. In recent months the ferry system across Cook Strait has also been disrupted. This is a critical linkage between the North and South Islands and essentially acts as the continuation of the state highway system. This system also needs to be designed to be resilient. **These are therefore the domestic supply chain disruptions that the Group is most worried about.** The Group members are constantly reviewing their operations to ensure that they have capacity to meet likely demand and enhance on port productivity. In recent years there has been substantial investment in new wharves and technologies around New Zealand. These include substantial developments of inland ports. The Group notes that the current RMA often delays this investment. **The Commission might like to focus on the implications of the current RMA and proposed successor legislation for investment in resilience for essential infrastructure.**

The Group supports the development of coastal shipping links between New Zealand ports.

New Zealand is not immune from international disruptions. COVID, the war on Ukraine, industrial action in the UK, US and Australia have all contributed to disruptions that impact international shipping. Shipping lines have shown strong commitment to maintaining services to New Zealand and we do not expect this to change. But we cannot pretend that we will not be impacted by these, or similar events in the future. A number of New Zealand businesses have altered their procurement practices to minimise vulnerability to supply shortages or delays in the future. Government might like to determine those imports that

are most strategically important for the economy and ensure that these products are sourced from a range of suppliers and locations. It would be unwise to have these products sourced from one company or one location. Similarly, storage of strategic reserves, such as refined fuels, should consider New Zealand's geographic risks and avoid unnecessary concentration. Hindsight suggests that it was unwise for New Zealand to be so dependent on supply from the city of Wuhan at the start of the COVID outbreak.

Like many parts of the economy, the port sector has faced pressure over the recruitment of staff and skilled staff over the past few years. More needs to be invested in vocational training relevant to the sector to ensure that medium to long term needs are met. Shorter term, immigration policy settings need to be reviewed to ensure that they enable the sector to fill gaps through international recruitment. Regulation for certain occupations also needs review to ensure that it is fit for purpose. The Group is working with officials from Maritime New Zealand and MBIE on these matters. They are probably worthy of consideration by the Commission in the resilience context.

The Group is monitoring closely both the potential impacts of climate change (eg sea level rise) and the development of climate change policy as it begins to impact the maritime sector. Domestic shipping is already subject to the New Zealand domestic policy. Internationally carbon charging, border tax adjustments, emissions regulations etc all have potential implications for the New Zealand import and export trade. Short term some could be negative and involve higher freight charges and slower shipping transits. International shipping lines are responding to policy developments and over the next few years we will see more carbon efficient vessels and new propulsion technologies. It is too early to determine which technologies will be preferred. Electricity, using existing technologies, may not be the solution to decarbonisation of the long distance shipping industry but it will clearly play an important role for the sector, particularly for land vehicles and other equipment used by the sector. There is already an electric tug in service in New Zealand. The Group is monitoring these developments closely.

Large ships could potentially play a role in supporting the resilience of New Zealand's electricity supply network. Their generators are able to produce sufficient electricity to power many homes and businesses. In a situation where supply has been compromised for some reason or another a large cargo ship, and passenger liner or a large ferry could provide supply to a locality should the infrastructure be in place to allow the transfer of electricity from a ship to shore or shore to ship, and then reticulation from shore to the wider electricity network. At this point there is not sufficient reason for most ports to consider investment in such capability, but this something that Government could potentially be considering under the resilience paradigm. An added benefit is the possibility of allowing ships to stay powered at ports without generating emissions from their engines. The Group notes that the cost of acquiring such technology is significant both on port and for the local electricity network. The Group would be keen to facilitate the introduction of this technology in some locations in New Zealand.

