

Auckland Council's Response to the New Zealand Productivity Commission's Draft Report on International Freight Transport Services (January 2012)

23 February 2012

Summary

1. Auckland Council (the Council) welcomes the New Zealand Productivity Commission's investigation into the international freight system and the release of its draft report. The Council plays a critical role in New Zealand's freight system through our ownership of Ports of Auckland Limited (POAL) and 22.5% shareholding in Auckland International Airport Limited (AIAL), and our ownership of local roads and transport infrastructure. We recognise the vital importance of an efficient logistics chain to New Zealand.
2. Given the time constraints faced by the Council in developing this submission, a focused approach has been taken to our feedback. The Council's feedback focuses on findings and recommendations relating to its role as:
 - Owner of POAL and shareholder in AIAL;
 - Strategic planner through processes such as the draft Auckland Plan and Economic Development Strategy (EDS);
 - Regulator through the Resource Management Act (RMA) 1991; and
 - Provider of a wide range of public services (particularly transport) across Auckland.
3. Applying this lens, we provide feedback primarily on chapters 8-11 of the draft report. We also include a section at the end of this submission where comments on findings and recommendations from other chapters can be found.
4. In summary, the Council submits the following key points to the Commission:
 - A more collaborative and strategic approach to port operation and investment is critical. There is a lack of a rational planning approach regarding which ports should expand, become more specialised or be divested of to maximise economic efficiency and minimise public expenditure on supporting transport infrastructure and other services. This absence of a strategic approach creates risks of under or over-investment (amongst other things) and can result in uncoordinated decisions by various parties which do not make New Zealand more internationally competitive. Central Government must play the important and necessary role of facilitation, coordination and leadership, to develop a strategic approach to ports that improves outcomes for New Zealand as a whole, in consultation and collaboration with ports owners, operators and other key stakeholders.
 - A long term view of efficiency needs to be taken, especially given the lumpy nature of ports investment. Furthermore, efficiency in one part of the economy (e.g. the freight system) may not improve overall welfare when externalities are present.
 - While commercially focussed, it is rational and usually desirable for ports to have supplementary objectives from their shareholder(s), as any other profit-maximising business might have. Given this, we disagree with the Commission's recommendation to change the objectives of Council-owned port and airport companies to align with the objectives for state owned enterprises.

- Ports are not isolated entities and operate within a wider city environment with various supporting networks and challenges. The best outcomes for both POAL and Auckland will come from optimising the synergy between these institutions, to better integrate Council activities, POAL operations, transport infrastructure investment, and spatial planning.
- The Council's holding company Auckland Council Investments Limited (ACIL), successfully mitigates political influence on POAL's operations, which allows the port to run on a commercial basis.
- The current public ownership model for POAL is efficient and delivers a good balance between commercial focus and restraint of market power.
- A review of sections 5 and/or 6 in regards to clarifying the role of socio-economic outcomes in the RMA is supported in principle.
- A review of section 166 of the RMA receives qualified support. The Council does not support classifying ports as Network Utility Operators, but does support a more restrictive classification for ports as "Limited Requiring Authorities," whereby Council would retain final rights over decisions regarding land-side expansion, etc.
- The proposed National Policy Statement (NPS) on transport infrastructure is supported and should provide much needed guidance on ports and their supporting infrastructural requirements. The Council wishes to be closely involved in the development of such a NPS.
- The Commission's draft report does not explore Auckland's transport funding gap, which is an impediment to improving the efficiency of the overall transport system and of freight transport in particular.
- The Cost Benefit analysis prescribed by Treasury for transport projects needs to be reviewed to ensure that it includes all relevant externalities, including the flow-on effects from land use changes, urgently achieving a lower social discount rate (currently 8%), and a longer appraisal period (currently 30 years). These improvements should refocus transport investment decisions on the longer-term transformational projects in which New Zealand needs to invest.

Introduction

5. Thank you for the opportunity to submit on the New Zealand Productivity Commission's draft report on international freight transport services. This submission represents the views of the Auckland Council, but has been developed in consultation with Auckland Transport. We note that POAL intends to make a separate submission on the draft report.
6. The Council made an earlier submission (dated 23 September 2011) to the Commission in response to its Issues paper, which outlined the Council's views on a range of questions posed by the Commission. Where appropriate, this submission re-emphasises those earlier views.
7. The Council is currently in the process of finalising its draft Auckland Plan and draft EDS. As outlined in our earlier submission, the draft Auckland Plan identifies the Council's desire for Auckland to become an internationally-connected and export-driven city (i.e. Economy Priority 3). Related to this focus, we believe achieving the vision of the draft EDS is contingent on international trade, export growth and efficient infrastructure.
8. As with other international cities, Auckland's connectivity is a key determinant of its advantage, competitiveness and export potential. Given our relative geographical remoteness it is critical that we reduce our transport costs where possible. The efficient operation of Auckland's air and seaports (and the supply chains to and from these), which are our gateways to the global economy, is critical for both Auckland's and New Zealand's prosperity.

Key findings and recommendations – Auckland Council’s response

9. The draft report includes a number of findings and recommendations that are of interest to the Auckland Council, which we address below.

Importance of coordinated future investment

10. The Council wishes to emphasise comments from its earlier submission about coordinated future investments in port infrastructure and the potential benefits from a more collaborative and strategic approach to port operation and investment.
11. As previously submitted by the Council (pp.9 and 10 of our earlier submission), the substantial financial demands required to service ever larger vessels with larger volumes of containers in an environment where international container shipping lines have strong bargaining power and the ability to shift operations between ports creates an environment of uncertainty. This uncertainty creates significant risks for ports (and others), in particular those of over or under-investment and short-term pricing decisions, which may lead to returns that are insufficient to meet shareholder expectations and support necessary investment in future capacity.
12. From feedback received in response to the Auckland Plan Discussion Document from Smartgrowth (Environment Bay of Plenty, Tauranga City Council, Western Bay of Plenty District Council and Northland Regional Council) there was consensus that New Zealand will need the port capacity of both Auckland and Tauranga to handle growing freight demand. Even if both ports complete all envisaged expansion plans, and significantly improve productivity levels, by 2040 there is expected to be insufficient capacity between them to meet freight demand in the upper north island, which may necessitate further development at Northport, Whangarei.
13. Given this situation, we wish to reinforce our support for Central Government to take a leading role in creating a more strategic approach to port operations and development in New Zealand (p.14 of our earlier submission). A planned and efficient network would reduce duplicative investment and therefore bring considerable savings to New Zealanders, as most of this infrastructure is publicly funded. Council would support an overall strategic plan for ports being developed by the public and private sector with the focus on making New Zealand internationally competitive rather than the status quo of interregional competition. The Council is not advocating for the nationalisation of ports, but would like to see a higher level of facilitation, coordination and leadership from the Government on the future of this sector.
14. To that end, the Council supports Finding 13.2 of the draft report for instance, which suggests the Government should develop a proposal to extend the Freight Information Gathering System and subject it to a regulatory impact analysis ‘efficiency test’ to determine whether it would deliver net benefits beyond existing information collection and dissemination.

Governance and ownership (chapter 10)

Governance

F2.1 *The Commission views economic efficiency (broadly defined) as the key yardstick of performance for the international freight transport system. An efficiency approach will take account of harmful effects of freight transport on the environment and of other market failures.*

15. With respect to the concept of 'efficiency' the Council fully endorses the intention of improving productivity in a way that supports the overall wellbeing of New Zealanders. However, we would like to re-emphasise from our earlier submission the need to take a long term view of efficiency. Related to this, we note the importance of understanding that efficiency in one part of the economy (e.g. the freight system) may not improve overall welfare when externalities are present.

16. While economic efficiency is important, we believe that the breadth of the definition of efficiency used by the Commission should be expanded to include other factors as there is a risk that overall wellbeing may not be correspondingly maximised with a singular focus on efficiency. From our last submission (p.5):

'28. A further concern we have is the need to ensure that efficiency is defined sufficiently broadly to fully capture the sustainability and energy conservation impacts of any potential changes to international freight transport services.

...Therefore, a significant concern we have is that a focus on allocative efficiency, where important external costs and benefits are excluded from the analysis will not guarantee that the 'efficient' solution is also the outcome which maximises social welfare.

29. Therefore, the risk of adopting an economic efficiency approach is that the outcome that could be overlooked is in fact overall wellbeing. This would be best served by promoting the economic efficiency of the logistics supply chain for New Zealand importers and exporters, only where all external costs and benefits are fully recognised. Where this is not the case a broader assessment is needed and an open mind kept as to whether efficiency is most likely to be achieved through markets or some form of intervention.'

F10.2 *The Port Companies Act sets the principal objective of every port company as being to operate as a 'successful business'. However, that objective is unclear. In the case of majority council ownership it may be supplemented with the objectives of a port company's owners.*

F10.3 *The Airport Authorities Act requires airport companies to be managed as a 'commercial undertaking'. In the case of majority council ownership, that requirement may be supplemented with the objectives of the airport company's owners.*

R10.1 *The objectives of council-owned port and airport companies should be brought into line with the objectives for state-owned enterprises; ie, to be as profitable and efficient as comparable businesses that are privately owned.*

17. We suggest many private companies do factor in more than a simple profit motive when making decisions and in fact may constitutionally have multiple objectives. Firms understand that customers and shareholders are increasingly concerned with wider issues, such as sustainable practices, fair trade principles, etc.

18. We appreciate that the Port Companies and Airport Authorities Acts aim to assign a greater commercial focus to such companies, however, we believe that it is rational for ports to have supplementary objectives from their shareholder(s), as any other profit-maximising business might have. As per POAL's 2011/12 Statement of Corporate Intent (SCI) this includes: awareness of the impact it has on the economic wellbeing of the region and New Zealand; a commitment to ongoing consultation with the Council and the community; various targets in respect of its people, processes, customers, its business model and sustainability; and to provide an increased level of financial returns to its shareholder. The Council considers these objectives are not unreasonable nor should they negatively impact POAL's commercial and efficiency incentives.

19. Ports are not isolated entities. They operate within a wider city environment with various supporting networks and challenges. We see the Port and the City as part of the same ecosystem, both interdependent. Given this, we believe that the best outcomes for POAL and Auckland will come from optimising the synergy between these institutions and that this optimisation is most efficient with full ownership of the Port. A good example of this synergy in action was during the Rugby World Cup 2011, where Captain Cook Wharf was deployed for temporary public use because of insufficient capacity elsewhere on the Waterfront, without affecting the commercial profitability of POAL.
20. In respect of maximising this synergy, we reiterate the following point from our last submission (p.7):

‘38. ...the new council governance structure provides an opportunity to better integrate council activities, POAL operations, transport infrastructure, land use planning and spatial planning. The governance arrangements of the Auckland Council and full ownership of POAL enables the two entities to coordinate and take strategic and investment decisions that will be of benefit to the whole region. This balance is the best way of achieving an efficient port which is well integrated with the city.’

21. In respect of the Commission’s recommendation on the alignment of council-owned port and airport companies’ objectives with the objectives for State Owned Enterprises (SOEs), we consider this change as unnecessary. We note that the principal objective for SOEs also includes requirements related to b) being a good employer and c) exhibiting a sense of social and environmental responsibility by having regard to the interests of the community in which the SOE operates, and would assume the Commission was referring to the principal objective in its entirety in making this recommendation. We note requirements b) and c) are also shared by CCOs under the Local Government Act 2002.

We suggest that companies must take a longer-term view of success, failure and efficiency, and take into account many other externalities to be successful. This does not necessarily mean they operate inefficiently; they simply take a wider view of efficiency. Furthermore, POAL already has a focus on increasing shareholder returns in its SCI making such a proposed change less relevant. ACIL’s role which is enshrined in legislation is to bring a strong commercial focus to the management of its investments. Even if the SOI for ACIL did not include profitability and return objectives, the Board of ACIL would still need to meet their statutory objective.

22. Finally, we note that there is no compelling evidence presented in the draft report to suggest that the directors of Council Controlled Organisations (CCOs) cannot balance multiple objectives and conduct an efficient business.

F10.4 A holding company can provide partial, but incomplete, insulation between the wider objectives of a council and the commercial objectives of a port or airport company.

23. ACIL is the holding company that acts as the “firewall” between the Council and POAL. ACIL is governed by an independent board with no elected representatives. ACIL in turn appoints the directors of POAL. While ACIL is designed to convey the wider objectives and expectations of Council to POAL (via annual SOI and SCI negotiations), we maintain that it successfully mitigates political influence on POAL’s operations, which allows the port to be run on a commercial basis.
24. We further note that Council’s current CCO structure was established by the Government (via the Auckland Transition Agency) as part of the Auckland governance reforms, which would suggest the holding company model was viewed as an effective one.

25. ACIL's current 2011/12 SOI requires it to develop a long term strategy for POAL which aims to (amongst other things) improve the productivity and profitability of POAL. The performance measures associated with this output include significant increases to POAL's return on equity, crane rate and vessel rate.

Labour relations

26. In its role as owner (and not operator) of POAL, the Council will not comment on the findings and recommendations that relate to on-going operational matters of the port, as it is for POAL's management to decide on the best way to achieve its objectives.

R10.2 *To maintain the separation between wider council objectives and the commercial objectives of port and airport companies, elected representatives and council staff should be precluded from being a director of council-owned port and airport companies. All relevant legislation should embody this provision.*

27. As noted by the Commission, section 93 of the Local Government (Auckland Council) Act 2009 (the Act) prohibits elected representatives from appointment as directors of the Council's substantive¹ CCOs. This is a requirement unique to Auckland local government. The exception is Auckland Transport, whereby section 43 of the Act provides that two members of the board can be councilors. The Council's current board appointments and remuneration policy also states that elected members should not serve on the boards of non-substantive CCOs unless there is a compelling reason to do so.

R10.3 *In the interests of improved reporting and transparency, and the efficient use of capital in the freight transport system, EVA figures for port companies should be regularly published and reviewed, including disaggregated data for significant business segments.*

28. The Council questions whether Economic Value Added (EVA) figures provide better information for decision making than the metrics currently used to monitor POAL's performance.

29. Under POAL's 2011/12 SCI, key performance measures include, in addition to a higher return on capital: crane rate, vessel rate, container volume percentage on rail versus road (process goals); increase in revenue and interest coverage ratio (financial goals); improvement in customer surveys, truck turnaround time, average turn time (customer goals); improvement in staff engagement and culture surveys, number of lost time injuries (people goals); number of harbour spills caused by POAL, community reference group meeting, target timelines for acknowledgement of complaint and response timeframe to complaints, if required (environmental and social goals). We consider that EVA figures might be better suited as a complementary measure in a multi-criteria measurement framework.

30. POAL's submission on the Commission's Issues paper (p.11) highlights the Australian Waterline programme which collects and reports data regarding both inputs and outputs via a Port Interface Cost Index, and suggests that port productivity is best understood as cost per container relative to vessel berth rate.

R10.4 *A collective monitoring function should be established for port companies, to create independent information on comparative performance of ports for owners to consider.*

Q10.1 *What agency would be best able to host the collective monitoring function for port companies?*

¹ A substantive CCO is a CCO that is either responsible for the delivery of a significant service or activity on behalf of Auckland Council, or owns or manages assets with a value of more than \$10 million.

31. We agree that collective monitoring function for ports would be beneficial to their owners and could drive fruitful competition in the sector. We note that as above it is likely that councils would find it most useful for a collective monitoring unit to develop measures to appraise overall performance of ports including their non-financial objectives. The Council does not have a view on the agency best able to host the collective monitoring function.

R10.5 *Government should use the s.7 provisions in the State-Owned Enterprises Act (providing for SOEs to receive direct payments for non-commercial activities) with KiwiRail to transparently identify expectations around public-good delivery and the costs incurred in their provision.*

32. The Council supports this recommendation and considers such consistency desirable. Ideally, section 7 should also require planning decisions to account for the wider outcomes sought by Government to better enable the SOE to negotiate such payments.

Ownership

F10.1 *Effective governance is ensuring that the organisation makes value-maximising decisions across all of its functions and activities. The governance arrangements for publicly owned enterprises need to be of high quality because publicly owned enterprises face less discipline from other sources than comparable privately owned enterprises.*

F10.5 *One option for public owners seeking to improve governance is to opt out of the relevant public-sector governance regime and into the stock-exchange regime. A stock market listing offers significant potential governance improvements for larger companies with partial council ownership. These benefits arise from an observable share price, reporting and continuous disclosure rules, and external analysis of management decisions.*

R10.6 *To improve the efficiency of ports, councils should consider increasing the degree of private ownership in them. Councils should evaluate whether they can still achieve important community aims with lower ownership stakes.*

33. Any decision to sell down a portion of the Council's ownership in POAL is a choice for the Council, subject to the provisions around the transfer of ownership or control of strategic assets in the Local Government Act 2002. As noted in our earlier submission, these assets provide an ongoing income stream to the Council, which reduces the level of operating expenditure that requires rates funding, and allows increased investment in other areas, or a reduced requirement for further rates increases. Ownership of POAL also provides a degree of strategic influence over this important area of the CBD.
34. Paragraphs 31 to 41 of our last submission set out the Council's view on full public ownership of POAL. In summary, our view remains unchanged and we believe that:
- The evidence in respect of negative economic returns for New Zealand ports and on the efficiency implications of public ownership is mixed.²
 - The current public ownership model is efficient and delivers a good balance between commercial focus and restraint of market power.
 - The current governance model also provides a good balance between commercial freedom and the wider planning and policy objectives of the Council.
 - NZIER (2010) found that there is no evidence to suggest that the current governance arrangements negatively influence investment decisions or the exercising of market power by ports. This suggests that port companies can make efficient decisions under public ownership.

² For example: *Port Performance and Ownership. An assessment of the evidence*, Report to the Local Government Forum, New Zealand Institute for Economic Research, 2010.

- The new Council governance structure provides an opportunity to efficiently align Council activities and objectives, POAL strategic goals, transport, and spatial planning.

35. We note that in terms of average container productivity across selected New Zealand ports and Australia (p.37 of the Commission's draft report), POAL (and indeed New Zealand) compares favourably. Finding 3.2 in the draft report states 'available indicators suggest that New Zealand's container port performance is no less and possibly better than in Australia.' This again indicates the relative efficiency of POAL. We conclude that both private and publicly-owned firms can be inefficient under certain conditions, but that POAL is an exemplar of public arms-length ownership.

R10.7 *Councils – in particular those with interests in ports occupying large blocks of central city waterfront land – should consider landlord port models in which land ownership is separated from port operations. This may be an efficient mechanism for maintaining control over port land use while benefiting from the efficiency improvements resulting from increased private involvement in port operations.*

36. We note that separating land ownership from ports operations (i.e. the landlord model) is an option that could be considered by Council. However, in its earlier submission the Council noted that while the landlord model is typically used offshore, its effectiveness may be limited in New Zealand, due to a lack of scale and the fact that current ownership and operational arrangements essentially provide port management with full operational responsibility and clear performance targets, including profitability.

F10.6 *While central government ownership of rail has relatively poor incentives for improved efficiency, history suggests that rail (at least at the current network extent) is unlikely to pay its way under any ownership arrangements.*

37. The Council suggests that this finding is based on metrics which do not fully estimate the wider economic benefits of public transport to supply chain efficiency. AIAL has previously submitted to the Commission that (p.15) '...if roads in Auckland could be freed up by removing/reducing the number of commuters on them, thereby allowing freight to be transported more easily/quickly, this would be beneficial for NZ.'

38. POAL also noted in their submission (p.11) the importance of getting cargo to the port on time: 'What matters most to our shipping line customers (in addition to cost) is, ...getting their ships out on window (i.e. on time) so they can make their next port of call in time for their berth window there. Arguably, peak hour congestion in Auckland is a considerable risk to 'just-in-time' delivery of goods to port in time to meet that 'window'. Effective public transport in Auckland would mitigate the growing burden of peak hour congestion.'

Investment, innovation and dynamic efficiency (chapter 8)

F8.8 *There appears to be ambiguity around the interpretation of the purpose of the RMA and the extent to which the Act allows the balancing of socio-economic aspirations with environmental outcomes.*

R8.1 *Section 5 of the Resource Management Act 1991 should be reviewed to clarify (and elevate) the consideration of net social benefits and costs (including those accruing at a national level).*

Should the Government decide not to review s.5, s.6 of the Resource Management Act 1991 should be amended to include specific reference to the development and operation of regionally and nationally significant infrastructure.

R8.3 *Section 166 of the Resource Management Act 1991 should be modified to include port companies as network utility operators.*

39. We believe there is merit in the Commission's statement (p.109) that: '...a strict 'environmental bottom-line' interpretation appears at odds with the efficient use of society's natural and physical resources.' So the Council supports a review to clarify the role of socio-economic costs and benefits in sections 5 and 6 of the RMA.
40. Officers agree on the importance of a balance between economic, social and environmental outcomes. Clarity around this issue would be of great benefit to the Council and New Zealand planning practice in general.
41. In respect of amending section 166 of the RMA, the Council in its submission to the Ministry for the Environment on its discussion paper³ regarding potential changes to the RMA, stated that it would like Requiring Authorities to be consistent with the Auckland Plan. From pp. 12 and 13:
42. '56. Auckland Council does not support broadening the eligibility of full requiring authority status to include private providers (including ports and electricity generators). Full requiring authority status should not be extended to private providers, but retained for the public sector.
43. The Council does support a new "limited requiring authority" category which could be conferred on private providers (either for all projects or limited types of projects) to enable new procurement mechanisms. This will facilitate greater investment in infrastructure. However, decision-making on projects that are not of national importance should be made by the Council and not an independent decision-maker recognising that Council has responsibility to deliver on the outcomes of the Auckland Plan.'
44. The Council would support an in-depth review of the Commission's proposal.
45. The Council would welcome an opportunity to provide input to these proposed reviews.

R8.2 *The Minister for the Environment should commence development of a National Policy Statement for transport infrastructure, which would provide central government recognition of the importance of New Zealand's transport infrastructure.*

46. A NPS for transport infrastructure, which ideally aligned with the National Infrastructure Plan, could potentially provide much needed guidance on ports and their supporting infrastructure.
47. The Auckland Plan has received significant input from central government, port providers and a wide variety of stakeholders, and consistency between the Auckland Plan and a NPS would be desirable. In the case of Auckland, there are likely to be parts of the transport network which are regionally significant, but may not be roads of national significance. A NPS could provide central government support for regionally significant transport infrastructure, which would benefit the delivery of important projects.
48. The Council would again welcome the opportunity to assist with the development of such a NPS.

³ *Building competitive cities: reform of the urban and infrastructure planning system: a discussion document*, Ministry for the Environment, 2010.

F8.5 *Other than the possible effect of heavy vehicle regulations on the uptake of higher productivity vehicles (discussed in Chapter 13), there do not appear to be any impediments to investment and innovation in road freight.*

49. We consider there are impediments associated with the uptake of Higher Productivity Motor Vehicles (HPMV). There are significant infrastructure improvement costs required to cater for HPMV in Auckland. These truck and trailer units can weigh up to 62 tonnes, and only limited sections of the state highways and strategic freight network have been certified to full HPMV standards in Auckland, with most of the infrastructure bottlenecks being bridges that are not rated for the full load.
50. Because of limited funding in the National Land Transport Fund, it is appropriate to determine the costs and benefits of particular HPMV routes and the extent to which HPMV users are paying their fair share in terms of specific and general transport improvements.
51. Additional costs (such as maintenance of local roads) are required to be borne by the Council and the New Zealand Transport Agency (NZTA). Consideration is needed on how HPMV users might contribute to these additional costs and how this revenue is allocated between NZTA and the Council.

Auckland's transport funding gap

52. The Council is concerned that the Commission's Report does not explore Auckland's transport funding gap, which is an impediment to improving the transport system and the efficiency of freight transport.
53. The Draft Auckland Plan and Getting Auckland Moving discussion document, approved to be release for public discussion with the Long Term Plan, identifies possible alternative transport funding mechanisms which could enable transport infrastructure improvements that would significantly contribute to efficient freight transport. Road pricing for instance has the potential to reduce unnecessary trips on congested parts of the road network. While trucks might bear an additional cost, if time savings result in a greater overall net benefit, there are potential efficiency gains here which should be explored. In 1997 a report from Ernst & Young⁴ on the cost of congestion identified potential costs to the freight industry of \$100 million per annum as a result of congested roads in Auckland.

Infrastructure coordination and planning (chapter 9)

R9.1 *A full cost benefit analysis (i.e., including all externalities) should be published for government investments in rail infrastructure, including further investment in the KiwiRail Turnaround Plan. These analyses should be directly comparable to those produced for major road projects.*

Proposals for investment in road and rail should be subject to rigorous investment screening in a coordinated way, which enables the best projects to selected – be they road, rail, or a combination of the two. Without this level of transparency, the public cannot be confident that scarce resources are being allocated to the most beneficial projects.

54. In principle, the Council agrees with a comprehensive Cost Benefit analysis approach to transport projects. However, we believe the Cost Benefit analysis prescribed by Treasury needs to be reviewed to ensure that it includes all relevant externalities, including those from land use change, urgently achieving a lower social discount rate (currently 8%), and longer appraisal period (currently 30 years) to ensure that the focus

⁴ *Alternative Transport Infrastructure Investments and Economic Development for the Auckland Region*, Ernst & Young, 1997.

of investment decisions is not on short term infrastructure projects and at the expense of economic transformation projects in which New Zealand must invest.

Land use change

55. The causal relationship between transport infrastructure and economic growth is well established in the economic literature, yet it is not fully accounted for in Cost Benefit analyses because of measurement difficulties (including concerns around double counting and data availability).
56. The imminent addition of wider economic benefits into the economic evaluation manual, as administered by NZTA, is a considerable improvement on past practice. However, we believe the methodology remains unable to account for the full extent of economic development effects, such as those that come from land use change.

Discount rate and appraisal period

57. The social discount rate currently used in the assessment of transport projects is 8% (real and net of general price inflation) and the appraisal period is 30 years. We would like to see a lower social discount rate and longer appraisal period in Central Government's cost-benefit framework.
58. At 8%, New Zealand policy makers equate a dollar of benefit received in 30 years time, with 6 cents received today. The official government policy is to disregard all benefits after a 30-year appraisal period because they are so insignificant (once applying an 8% discount rate). In comparison, at a discount rate of 4% (roughly in line with the United Kingdom and the European Commission), policy makers would equate a unit of benefit received in 30 years time with 31 cents received today (so benefits in the future are given a higher value).
59. New Zealand's current social discount rate policy attempts to solve two distinct problems. The first is to take account of an infrastructure project's 'wider economic investment' effects. This means ensuring that public projects do not crowd out even more profitable private sector projects – as well as taking account of how productivity improvements stimulate more private investment. These wider investment benefits and opportunity costs can differ significantly between projects. Taking account of these features is critical to ensure value for money.
60. The second problem is determining the social rate of time preference. Individuals and society in general place a higher value on short-term benefits rather than those that occur further into the future. The social discount rate makes a judgement on the value of benefits received in the future. NZIER⁵ estimates a figure for this rate of approximately 3%. The Council considers something in this order is more appropriate.
61. This has important implications for Cost Benefit Analyses and the type of infrastructure projects that are approved for funding. A lower discount rate improves the case for transport projects that have benefits further into the future.
62. In line with recommendations to the Council from NZIER⁶, we recommend that:
 - independent research is commissioned on the social discount rate for public projects, which would include identifying an appropriate social rate of time preference and further research on the Shadow Price of Capital approach; and

⁵ *Valuing the future appropriately. Case for using the shadow price of capital in social discount rate policy*, NZIER, August 2011.

⁶ *Ibid.*

- central government should adopt an internationally-comparable, evidence-based, transparent, whole-of-government approach to discount rates and appraisal periods in the public sector.

Q9.1 *Are there any specific examples of impediments to the optimal coordination of freight infrastructure planning between central and local governments, or between adjacent local governments?*

63. The Council considers that there are freight infrastructure planning issues between central and local government. The following examples relate to planning for port expansion and rail freight in Auckland.
64. There is a lack of a rational planning approach regarding which ports should expand/contract to maximise economic efficiency and minimise public expenditure on supporting infrastructure. The responsibilities for planning ports and transport infrastructure are split among various organisations, which makes coordination difficult.
65. In response to this situation, the Upper North Island Strategic Alliance (UNISA)⁷ for instance is presently sharing information and identifying common planning interests, including the planning and coordination of ports in the Upper North Island.
66. KiwiRail was tasked with assessing the financial viability of selected rail lines that were considered unprofitable. Because KiwiRail is required in part to focus on financial return, it could not be expected to consider the costs and benefits that might arise to third parties (whether they be social, environmental or economic in nature) or the costs that might be imposed on NZTA as a result of increased truck volumes on the road network if a line is closed.
67. In the case of the North Auckland Rail Line, the response from local government was to invest in low floor wagons to improve the viability of rail freight services in Northland, which would secure significant benefits for its communities, as would reconnecting North port directly to North Auckland Rail Line. We would like to reinforce for the Commission that the focus on efficiency in one part of the economy (e.g. the rail freight system) which does not take into account external costs and benefits may not result in an efficient solution, as outlined earlier in this submission.

F9.1 *Coordination failures may be exacerbated by the multiple objectives associated with public ownership. Such failures may be better addressed through governance and ownership changes rather than centralised strategic planning.*

68. We do not believe a robust case has been made for finding 9.1, i.e. that governance and ownership changes may be the best strategies to address coordination failures. The draft report is not specific about what governance or ownership changes are required to improve coordination specifically, and the analysis is based solely on the efficiency of transport services. Changes in efficiency need to be considered along with the other impacts that come with governance and ownership changes.

F9.4 *The designation of transport corridors can create valuable outcomes at a relatively low cost. Corridor designation is a worthwhile activity for central and local government.*

69. Designation of transport corridors is a useful mechanism under the RMA and is supported by the Council. We note that strategic and regional arterial roads are defined

⁷ UNISA membership comprises Auckland Council, Bay of Plenty Regional Council, Northland Regional Council, Waikato Regional Council, Hamilton City Council, Tauranga City Council and Whangarei District Council. UNISA is a collaborative body that may make recommendations to their respective councils and central government and has no decision-making authority.

in the Regional Arterial Road Plan (ARTA 2009)⁸ while the strategic freight network is defined in the 2010 Regional Land Transport Strategy (RLTS) (ARC 2010).⁹ Policies are in place to support these strategic corridors but they are not necessarily formally “designated.”

70. The issues regarding designations that need to be worked through include: (a) the level of detailed analysis required to support a designation; (b) the length of time that a designation remains; and (c) the ability to use surplus land for purposes which are appropriate for its location next to a road, to ensure better integration of land use and transport.
71. The Council notes that the utilisation of designations is not necessarily a “low cost” process, as it generally involves large-scale land acquisition programmes, which can take many years to complete and are likely to encounter opposition from affected local communities concerned about the project’s impact. We note that freight-related designations may attract more objections than average from affected local communities, especially if there are sensitive land use activities located on the subject corridor.

Regulation of international sea freight competition (chapter 11)

F11.1 Cooperation agreements between international liner shipping carriers have historically been exempt from the full application of domestic competition laws. The policy rationale for these exemptions was that price/capacity fixing and revenue pooling etc. were needed to ensure reliable liner shipping operations. As such, the public benefits of the agreements were taken as so likely to outweigh any anti-competitive detriments that there should be no onus on carriers to prove that they do so.

R11.1 Exemptions for the types of agreement with the higher risk of anti-competitive detriment – ratemaking and capacity-limiting agreements – should be removed. These arrangements should have access to the authorisation and clearance mechanisms in the Commerce Act. There should be a transitional period to allow the agreements in place at the time the exemption is repealed to continue until their compliance with the Commerce Act has been tested.

72. The Council supports the removal of exemptions for ratemaking and capacity-limiting agreements. Given the importance of trade to New Zealand, we believe it is appropriate to make these changes in order to better balance incentives for price and service stability against the benefits of competition.
73. Related to this, the Council would also like to see further research into the relative market power between international shipping lines and ports (as noted in the Issues paper) and exploration of effective options for improving this situation. We noted in our earlier submission that reviewing the Commerce Act 1986 in respect of interport cooperation may be prudent in this respect, and would align well with current initiatives that are emerging like UNISA. We reiterate our concerns in respect of shipping lines’ market power in relation to hyper-competitive local ports, as per our earlier submission (p.8):

‘42. [The relative decline in the profitability of ports]... is not a function of ownership arrangements. In our view the major contributing factor is the increasing market power of container lines and the constraints to port company co-operation inherent in the Commerce Act. Thus, a key area of concern is that the amalgamation of shipping lines has effectively reduced ports’ bargaining power with the result being a reduction in profitability for ports, an increase in profits for shipping lines and no cost savings being passed onto New Zealand importers and exporters.

⁸ *Regional Arterial Road Plan*, Auckland Regional Transport Authority, February 2009.

⁹ *Auckland Regional Land Transport Strategy 2010-2040*, Auckland Regional Council, April 2010.

43. Therefore, as a result of providing economical freight prices for the international shipping cartels New Zealand ports can actually be viewed as an interesting case of being too competitive, with New Zealand now having some of the lowest freight rates in the OECD. Ports of Auckland and Tauranga are good examples of this. The competition between these ports has led to the price of containers landed in Auckland being 40% lower than containers landed in the port of Melbourne or Botany Bay.'

Response to other key findings and recommendations relevant to Auckland Council

Other regulatory issues (chapter 13)

F13.6 *A well-designed domestic Emissions Trading Scheme is likely to be an efficient mechanism to internalise the costs of greenhouse gases emitted by freight transport operators within New Zealand. International legs continue to be exempt pending the development of effective international arrangements.*

F13.7 *The New Zealand ETS places coastal shipping at a competitive disadvantage against international ships undertaking coastal voyages since they are exempt from ETS costs.*

74. The draft report explains that (p.206):

"...coastal shipping has the least greenhouse gas emissions and is the most energy-efficient mode per tonne kilometre, rail lies in the middle and road freight has the highest environmental impact. However, coastal shipping does have some negative environmental impacts. For example, it emits sulphur dioxide and nitrogen dioxide."

75. To help mitigate such environmental impacts, we would like to see the implementation of Annex VI of the International Convention for the Prevention of Pollution from Ships, of the MARPOL regulations. This limits sulphur dioxide, nitrogen dioxide and particulate matter emissions from ship exhaust and prohibits deliberate emissions of ozone-depleting substances.

76. The efficiency of the freight network (and its subsequent environmental impacts) depends on the efficiency and connectivity of all links that comprise the network (road, rail and sea). If increased international freight movements are achieved through addressing congestion and connectivity across the overall system and/or investment in cleaner vehicles, Auckland's air quality could vastly improve as a result. However if this approach is not followed, Auckland's air quality could degrade. It should be noted that the 2010 RLTS already has many relevant sub-policies related to the efficiency and connectivity of the transport system.

77. Finally, from a policy and planning perspective the Council's earlier submission to the Commission signalled its support for coastal shipping given its wider transport and environmental benefits. This is outlined formally in policy 4.7 of the 2010 RLTS.

Impediments to competition in international freight (chapter 5)

F5.1 *Episodes of significant truck queuing at Auckland Airport suggest poor coordination, leading to low operational efficiency. There is scope for market participants to address this issue, through coordination mechanisms such as a slot booking system with variable charges.*

78. The Commission notes in its draft report (p.73) 'The booking system encourages off-peak truck travel, with the aim of smoothing the workflow at the port to avoid bottlenecks at peak traffic times.' The Council supports this statement and finding 5.1. The 2010 RLTS

forecasts Auckland regional freight movements to grow by 68 percent between 2006 and 2031 (ARC 2009).¹⁰ Most of this increase is due to occur by road. Given the expected growth in international freight, the Council supports freight coordination to maximise freight's productivity, and to minimise its congestive potential and environmental impact.

79. We note that POAL already successfully uses a Vehicle Booking System that requires trucks to book slots in advance of picking up and dropping off containers.

¹⁰ *Current and Future Freight Movements in the Auckland Region and GPS Targets, WP2010/11*, prepared by Auckland Regional Council to support the development of the 2010 Regional Land Transport Strategy, May 2009.