

# Waikato Regional Council's response to Productivity Commission - International Freight Transport Services Inquiry Draft Report (January 2012)

24 February 2012

## Introduction

The Waikato Regional Council commends the Productivity Commission on the International Freight Transport Services Draft Report (January 2012) (the Draft Report). It will be a very helpful document in setting strategic directions for improving the economic efficiency of international freight transport services, both for government and other parties that have an interest in improving freight transport services productivity. The Council is certainly one of these.

## Summary table of key submission points

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| <ul style="list-style-type: none"><li>- <b>Note</b> that the Waikato Regional Council has adopted a new strategic direction that will see it take more of a leadership role in regional development. The Council's vision –"competing globally, caring locally" –supports the need to make better use of the region's existing physical and natural infrastructure and to increase the value of the regions international and interregional exports which will impact on the international freight transport system and help improve national and regional productivity.</li></ul> |
| <ul style="list-style-type: none"><li>- <b>Disagree</b> with the finding that states that 'there appears to be ambiguity around the interpretation of the Resource Management Act 1991 (the Act) and extent to which the Act allows balancing of socio-economic aspirations and environmental outcomes' (F8.8). Section 5 of the Act very clearly states bottom lines and it is clear that the aim of the Act is the sustainable management of natural and physical resources.</li></ul>   |
| <ul style="list-style-type: none"><li>- <b>Disagree</b> that the Act should be reviewed to elevate the consideration of net social benefits and costs (R8.1). The Act is quite clear that social benefits and costs need to be understood in order to ensure the way that natural and physical resources are managed does not prevent people from providing for their well-being (note that this is also reiterated in Section 32 of the Act).</li></ul>   |
| <ul style="list-style-type: none"><li>- <b>Provisional support</b> for the recommendation that states 'should the government decide not to review s.5, s.6 of the Act should be amended to include specific reference to the development and operation of regionally and nationally significant infrastructure' -in particular, if 'specific reference' means to support the sustainable management of such infrastructure.</li></ul>  |
| <ul style="list-style-type: none"><li>- <b>Provisional support</b> for the recommendation that 'the Minister for the Environment should commence development of a National Policy Statement (NPS) for transport infrastructure' (R8.2) however it considers that it would be very helpful to have central government guidance on this matter, which is set in the context of the Act.</li></ul>  |

- **Note** that national and regional infrastructure decisions having long-term implications so should take into account future risks such as peak oil and impacts of climate change.

- **Agree** that there are national and regional benefits that come from coordinating international freight transport services and related infrastructure and facilities planning and investment. This coordination and cooperation needs involve all key stakeholders including local government given their role in current and future natural and physical sustainable asset management. Sharing information (private and public sector parties) to make strategic, collaborative decisions is required so that freight investment, infrastructure and facilities can follow.

- **Agree** with the finding that states ‘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.’ (F9.4).

- **Neutral** position in relation to the recommendation that states that council owned port and airport companies should be required to be as profitable and efficient as comparable businesses that are privately owned (R10.1). Council notes that while profitability is an important consideration, many private companies factor in multiple objectives (for example, sustainable development) when making business decisions.

Councils are required by the Local Government Act 2002 (the LGA) to promote the social, economic, environmental and cultural well-being of communities (section 10, LGA). While striving for efficiencies is key, councils should not be restricted to seeking purely economic objectives from the assets they hold on behalf of the community.

- **Neutral** position in relation to the recommendation stating that elected representatives and council staff should be precluded from being a director of council-owned ports and airport companies (R10.2); however Waikato Regional Council sees the need for consistent approaches across New Zealand and across infrastructure sectors on this.

- **Neutral** position in relation to the recommendation stating that in the interests of improved reporting and transparency, and the efficient use of capital in the freight transport system, economic–value-added (EVA) figures for port companies should be regularly published and reviewed (R10.3).

- **Note** that the Waikato Regional Council is of the view that further consideration be given to the domestic transport (and related land use) components of the international freight transport services system (beyond level and direction of subsidies) as this is an area of central and local government interest, and where there are opportunities to influence for productivity and economic efficiency gain. For example, the need for ongoing alignment of transport planning and investment decision-making related to transport infrastructure, land use and facilities across the upper North Island.

## Waikato region background and strategic direction

1. The Waikato region has the fourth largest regional population in New Zealand with around 400,000 people, about 9.5 per cent of New Zealand's total population and population growth predicted for the region is 19 per cent over the next 20 years to 2031.<sup>1</sup>

In March 2011 Waikato Regional Council adopted a new strategic direction that will see it take more of a leadership role in regional development. The vision "competing globally, caring locally" recognises that being able to take advantage of global opportunities requires strong local communities with healthy environments. Critical success factors to achieve this vision are a high quality environment, innovation (including skilled labour), efficient supply chains (including transport systems and compliance) and collaborative leadership.

2. Waikato region's economy is closely tied to the resources provided by its environment. Three of the region's major industries (Livestock and Cropping Farming, Dairy Cattle Farming and Forestry and Logging) occupy 83 per cent of the region's productive land.

Waikato contributes approximately 10 per cent to Gross Domestic Product (GDP), which is broadly similar to its share of land area and population. Several sectors are part of national value chains and align well with national priorities: dairy, meat and other food manufacturing, high value manufacturing (such as agritech and aviation), forestry and wood product manufacturing.<sup>2</sup> There are clear linkages between these sectors, their respective value chains and international freight transport services –in particular physical transport networks that enable access.

3. Waikato region is important to the national economy and there is a high degree of inter-regional and intra-regional interdependence. For example, Waikato region relies on the Ports of Auckland and Tauranga and Auckland Airport for international connections. The regional land transport network provides important access for freight and people to other key destinations including major urban centres, ports, tourism locations and sub-regional employment centres.<sup>3</sup> Its central location between the Auckland, Bay of Plenty and Taranaki regions make it a nationally significant transport corridor. Hamilton Airport and the regional road network are important for maintaining inter- and intra- regional connections.

Almost a quarter of total national freight movements by land in New Zealand either travel within, to, from, or through the Waikato region (51 million tonnes out of a national total of some 225 million tonnes).<sup>4</sup> The Waikato region has a significant role as a leading freight handling and distribution centre for the upper North Island. In addition, 70 per cent of international tourists arrive in Auckland and a vast majority travel down State Highway 1 to visit key national tourism assets accessed through the region (Rotorua) or in the region (Waitomo Caves, Lake Taupo).<sup>5</sup>

4. Significant population growth and economic activity currently occurs and is projected to increase in the Upper North Island. In particular the so-called 'Golden Triangle' or economic growth area of Auckland, Waikato and the Bay of Plenty is becoming increasingly important. In terms of the role of the upper North Island it is important to note that<sup>6</sup>:

- The three regions of Auckland, the Waikato and the Bay of Plenty are expected to grow at a greater rate than the rest of the country and by 2031 it is expected that together they will account for 53 per cent of New Zealand's population. The three regions are responsible for the production and attraction of over half of all road and rail freight in New Zealand.

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<sup>1</sup> Statistics New Zealand (2006)

<sup>2</sup> *Waikato Regional Council, draft Regional Economic Profile, 2012*, page 9 (21 February 2012)

<sup>3</sup> *Regional Land Transport Strategy for the Waikato region 2011-2041*, page 18

<sup>4</sup> *Waikato Regional Council, draft Regional Economic Profile, 2012*, page 74 (21 February 2012)

<sup>5</sup> *Regional Land Transport Strategy for the Waikato region 2011-2041*, page 46-47

<sup>6</sup> *Regional Land Transport Strategy for the Waikato region 2011-2041*, page 43-49

- The significant role played by the Port of Tauranga, the Ports of Auckland and their associated freight hubs, including Fonterra's Crawford Street facility in Hamilton.
  - Auckland, Waikato and the Bay of Plenty currently generate over 45 per cent of the nation's gross domestic product, this will continue to grow and is projected to account for half of New Zealand's total economic activity by 2025.
  - There is high growth forecast in retail trade for the Auckland, Waikato and Bay of Plenty regions.
  - The integration of economic activity between Auckland and Hamilton is likely to increase as transport corridor improvements are completed and travel times reduced.
  - The forecast growth in freight traffic generated in the Waikato region is expected to double by 2031. The majority of this freight traffic is between the Waikato and Auckland.
  - It is essential that the Northland, Auckland, Waikato and Bay of Plenty regions think in terms of supply chains between Northport, the Ports of Auckland and the Port of Tauranga, and the land based network required to support these ports.
5. There are a number of opportunities for the Waikato region related to improving New Zealand's international freight transport systems productivity. These include developing a strategy that identifies Waikato's role in contributing to the upper North Island, other regions and New Zealand as a whole.

The region has identified that it can also make better use of its existing physical and natural infrastructure by identifying opportunities for improved sustainable management and finding better ways of managing demand. It can be smarter about investing in new assets by considering how they function as a network. This applies at local and regional level. Finally, it can increase the value of its international and interregional exports, particularly in the regionally important sectors that present immediate opportunities because of their existing scale and growth. These include<sup>7</sup>:

- High-value food manufacturing (dairy, meat and other food manufacturing)
- High value manufacturing (such as agritech and aviation)
- Forestry and wood product manufacturing
- High value services (such as agriculture, geothermal energy and information and communications technology)
- Aquaculture (currently small in size but has growth potential).

### **Investment, innovation and dynamic efficiency**

6. Finding 8.8: Section 8.4 of the Draft Report in relation to the Resource Management Act 1991 (the Act): This section discusses the meaning of section 5 of the Act and considers there is some ambiguity in that section as to whether it is meant to balance social-economic aspirations with environmental outcomes, or whether there is an intended bottom line 'that must be secured regardless of the social and economic costs' (page 109). Waikato Regional Council's view is that there is no ambiguity and as such it disagrees with this finding. Section 5 very clearly states bottom lines (bullet points a, b and c):

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<sup>7</sup> *Waikato Regional Council, draft Regional Economic Profile, 2012, page 11 (21 February 2012)*

## **Section 5. Purpose**

*(1) The purpose of this Act is to promote the sustainable management of natural and physical resources.*

*(2) In this Act, **sustainable management** means managing the use, development, and protection of natural and physical resources in a way, or at a rate, which enables people and communities to provide for their social, economic, and cultural well-being and for their health and safety while—*

*(a) sustaining the potential of natural and physical resources (excluding minerals) to meet the reasonably foreseeable needs of future generations; and*

*(b) safeguarding the life-supporting capacity of air, water, soil, and ecosystems; and*

*(c) avoiding, remedying, or mitigating any adverse effects of activities on the environment.*

It is clear that the aim of the Act is the sustainable management of natural and physical resources. The way that this is achieved must allow people and communities to provide for their social, economic, and cultural well-being and for their health and safety. So while the Act does not intend trade-offs between environmental, social and economic outcomes, it does intend that there is a weighing up of costs and benefits, and that the way the natural and physical resources are managed is not inconsistent with allowing people to provide for their well-being.

It is also important to note that the term 'physical resources', as used in section 5 of the Act, would include physical infrastructure such as roads and ports. It is clear that the Act intends that such infrastructure be sustainably managed.

Waikato Regional Council disagrees that the Act should be reviewed to elevate the consideration of net social benefits and costs. The Act is quite clear that social benefits and costs need to be understood in order to ensure the way that natural and physical resources are managed does not prevent people from providing for their well-being (note that this is also reiterated in Section 32 of the Act).

Waikato Regional Council notes that the recently published Bay of Plenty Freight Logistics Strategy (a product of the Bay of connections Economic Development Strategy) developed by a strategy advisory group (which included the Council as a member) has eight focus areas one of which focuses on advocating for a responsive and balanced regulatory regime that enables efficient supply chains for freight logistics.

7. Recommendation 8.1 of the Draft Report states that should the Government decide not to review section 5, section 6 of the Act should be amended to include specific reference to the development and operation of regionally and nationally significant infrastructure. It is not clear what 'specific reference' means. Waikato Regional Council's mission is about providing regional leadership to balance economic and environmental outcomes. Given this, if such a reference is to support the sustainable management of such infrastructure, then the Council would be more comfortable with this recommendation. It should be noted that the Act is not a vehicle for specifically encouraging activities expressly to achieve economic or social outcomes (i.e. beyond ensuring natural and physical resources are sustainably managed in a way that achieves the bottom lines in Section 5a), b) and c)).
8. Recommendation 8.2 of the Draft Report is that government (the Minister for the Environment) should commence development of a National Policy Statement (NPS) for transport infrastructure. Waikato Regional Council is not opposed to this recommendation. It considers that it would be very helpful to have central government guidance on this matter, which is set in the context of the Act.
9. The Council considers however that the guidance should start with a central government view on the wider development picture for New Zealand. It would be helpful if the guidance about the development of transport infrastructure is set in a wider context about how government sees the long term development of New Zealand. Without some strategic

directions about development in general, it would not be possible to define strategic directions for transport infrastructure.

The Council also notes that national and regional infrastructure decisions having long-term implications so should take into account future risks such as peak oil and impacts of climate change.

## **Investment coordination and planning**

- 10. Benefits of investment coordination and planning:** There are national and regional benefits that come from coordinating international freight transport services and related infrastructure and facilities planning and investment. Many potential opportunities for efficiency improvements are based on increased cooperation; therefore, as noted by Auckland Council in their submission on the inquiry issues paper, carefully balancing competition and cooperation is needed.

This is particularly true in relation to land use and transport planning to ensure optimal investment in infrastructure and facilities and effective and efficient domestic freight transport services. Supply chain operational efficiencies can be achieved through cooperation and information sharing (e.g. 'facilitated discussion') including a reduction in empty container movements, and removal of additional transport costs incurred due to inefficient freight movements. The Council considers that for full investment coordination and planning benefits to be realised this process needs involve all key stakeholders including local government given their role in current and future natural and physical sustainable asset management.

- 11. As the Draft Report states, international freight transport distinctive characteristics such as large, lumpy infrastructure investments and the importance of coordination and transit time along supply chains, require central and local government and the private sector to work together to make the system work effectively and efficiently for all (pp.20-21).**

Waikato Regional Council agrees that there is a clear need for improved coordination and cooperation between the activities directly controlled by local and central government and at regional boundaries. Sharing information (private and public sector parties) to make strategic, collaborative decisions is required so that freight investment, infrastructure and facilities can follow. As noted in the Draft Report, freight is an intermediate good or service, and not an end in itself (p.15).

- 12. Coordination failures:** Section 9.2 of the Draft Report identifies a number of coordination failures with regard to international freight transport services. Despite being referred to in section 9.1 however, the lack of coordination between economic development strategies, land use planning and transport planning and investment is not listed, except as part of the chicken and egg scenario which is then discounted from further discussion. Waikato Regional Council would be interested to know if this is because the Commission does not consider this a lack of coordination to be significant or because it did not turn its mind to this question. The Council considers coordination between economic development strategies, land use and transport planning, and investment as key in enabling sustainable management of resources and timely and fit for purpose development.
- 13. Waikato Regional Council recognises the inter-relationships between the Waikato region's primary production and the neighbouring regions and New Zealand's economy, and the benefits of co-ordinated economic strategies and transport and land use planning and investment between the upper North Island regions and central government. The Council is very pleased that the Upper North Island Strategic Alliance (UNISA) Agreement has now been signed and looks forward to working through UNISA on matters related to upper North Island strategic development.**

The UNISA Agreement establishes the parities' commitment to long term collaboration for responding to and managing a range of inter-regional and inter-metropolitan issues. As stated in the Council's previous submission (on the Productivity Commission's Inquiry Issues Paper), protecting and developing strategic road and rail transport infrastructure was identified as an issue that is of interest to UNISA. Subsequent to the Alliance being signed by partners in late 2011, UNISA discussion and work has led to the identification of four first-order priorities for UNISA. These include economic development linkages, transport rail, roads and freight), ports (including inland ports/freight hubs) and tourism all of which have links to the international freight transport services inquiry. Cooperation and collaboration can support improved productivity. For such reasons, it is very important that regions work closely together on strategic issues.

14. Waikato Regional Council strongly encourages recognition of this agreement and the UNISA priorities in the final report to be prepared by the Productivity Commission, given their significance in relation to improving the efficiency of international freight transport services in New Zealand. The Draft Report notes the benefit of optimal coordination of freight infrastructure planning between adjacent local governments and central government stating that its view is that the coordination of planning by local and central government is 'normal business' (pp.130-131).

The Council notes in relation to investment coordination and planning that the Bay of Plenty Freight Logistics Strategy referred to above (6.) refers to the importance of regional and national strategy alignment, and partnerships between local and central government, economic development agencies and other key stakeholders to achieve the strategy's aim to promoting world class logistics that support economic growth.

Waikato Regional Council encourages the Commission to go further and note that it is a critical success factor to enable improved economic efficiency and productivity in relation to freight transport services.

15. Finding 9.4: Waikato Regional Council strongly supports the Draft Report's finding that '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.' The Council has found it has enabled greater clarity between national and regional transport infrastructure providers and improved alignment of their respective investment priorities.
16. Findings 9.5 and 9.6: Waikato Regional Council strongly supports the Draft Report's findings that directive planning should be avoided in favour of lower risk mechanisms such as coordinated planning by central and local government, information sharing, and 'facilitated discussion' models of cooperation to enable strategic collaborative decisions that improve productivity and efficient economic development. Local government participation in facilitated discussion is important given its roles and responsibilities and linkages to enabling improved productivity of the freight transport system. The Council sees UNISA, given its identified goals and priorities, as a means to help achieve this.

## **Governance and ownership**

17. Recommendation 10.1 states that council owned port and airport companies should be required to be as profitable and efficient as comparable businesses that are privately owned. Waikato Regional Council don't have a position on this matter, although Council notes that while profitability is an important consideration, many private companies factor in multiple objectives (for example, sustainable development) when making business decisions.

Councils are required by the Local Government Act 2002 (the LGA) to promote the social, economic, environmental and cultural well-being of communities (section 10, LGA). While striving for efficiencies is key, councils should not be restricted to seeking purely economic objectives from the assets they hold on behalf of the community. This would conflict with

their purpose under the LGA and would prevent them from seeking broader objectives. The Council would support Auckland Council's submission point 53, page 7 (Inquiry Issues paper submission response) on this matter, as quoted in the Draft Report (p.147).

18. Recommendation 10.2 states that elected representatives and council staff should be precluded from being a director of council-owned ports and airport companies. Waikato Regional Council don't have a position on this matter, although the council sees the need for consistent approaches across New Zealand and across infrastructure sectors on this. As stated above however, irrespective of this specific matter, it is important that councils are able to determine the objectives of companies under their ownership.
19. Recommendation 10.3 states that in the interests of improved reporting and transparency, and the efficient use of capital in the freight transport system, economic–value-added (EVA) figures for port companies should be regularly published and reviewed. Waikato Regional Council is not opposed to this recommendation. It supports competition and improved economic efficiency and productivity with regard to international freight transport services.

### **Other regulatory issues**

20. Domestic freight transport services: Waikato Regional Council notes that the Ministry of Transport's briefing to the incoming Minister (December 2011) makes the point government cannot control international routes and pricing in relation to international freight transport services but can "play a major role in determining domestic transport costs through its investment and regulatory decisions". The briefing goes on to note some of the policy challenges in this area related to land transport (pp.20-45). For example, in relation to government revenue to fund land transport, the briefing notes that "in the longer term, progress in electronic technology will further reduce transaction costs and make it possible to implement [road user] charges that vary by location and time of day" (p.27) –this could result in benefits for different types of road user. The briefing also acknowledges the upper North Island's role in relation to freight growth and development pressures.

Waikato Regional Council noted the importance of viewing the whole of the international freight transport system (e.g. including the domestic system) in relation to improving international freight transport services productivity in its submission on the Commission's Inquiry Issues Paper. Given the strong interrelationships between national and regional productivity, the significance of the upper North Island area to international freight transport services, and the opportunity to improve and influence policy to improve productivity,

Waikato Regional Council is of the view that further consideration need to be given to the domestic transport (and related land use) components of the system (beyond level and direction of subsidies) as this is an area of central and local government interest and where there are opportunities to influence for productivity and economic efficiency gain. For example, the need for ongoing alignment of transport planning and investment decision-making related to transport infrastructure, land use and facilities across the upper North Island. Note that freight transport modes are not only used for freight and that all transport modes impact on land use and travel patterns, access to services and the like.

21. Waikato Regional Council notes that the Productivity Commission has focused in its Inquiry Draft Report on the international aspects of the international freight transport services supply chain, yet the whole supply chain is within its brief and comments are made of the importance of the cost of the total supply chain being the key issue for importers and exporters (p.5).

The Council notes that there appear to be a number of questions it would have been useful for the Commission to comment on. These include, but are certainly not limited to: Why is Government road investment based on assessments of freight volume and not value, and does not distinguish between imports and exports?; Is there enough land zoned for freight

logistics hubs and if yes, is it in the right place and of the right type?; Is the 'right' mode of infrastructure in the 'right' place to move goods efficiently?; To what extent will High Productivity Motor Vehicles impact over time on existing infrastructure resilience and improved productivity and efficiency? Is infrastructure future-proofed to support emerging industries?; and To what extent do infrastructure investment criteria and decisions support emerging industries?.

- 22.** Waikato Regional Council sees that there is a balance to be struck in the Draft Report findings and recommendations between focusing solely on efficient freight movement and recognising that economic efficiency for freight movement is not the only criterion relevant when making planning and investment decisions (p.14) –which the Council notes is broader than the scope of this inquiry. The Draft Report should acknowledge that economic efficiency for example is not the sole driver for resource management decisions (for example, avoiding short-term trade-offs related to economic efficiency for freight that damage our natural resource capital in the long-term).