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Submission to the Productivity Commission Issues Paper on Improving Economic Resilience

Introduction

Port of Tauranga Limited is New Zealand's international freight gateway. It operates the country's largest container terminal, currently handling 1.24 million TEUs annually (or 42 per cent of all shipping containers). The Port handles 32 per cent of all New Zealand cargo and 36% of all New Zealand exports. It is currently the only New Zealand port capable of accommodating the largest international container vessels to call in New Zealand.

Port of Tauranga also has shareholdings in Northport Limited and PrimePort Timaru. It operates inland ports in Auckland and Christchurch and is developing an inland port at the Ruakura Superhub near Hamilton in partnership with Tainui Group Holdings.

The New Zealand economy is heavily dependent on international trade and, given the distance from our markets, we need robust, reliable, and affordable freight networks. Our networks must be flexible and resilient, with built-in redundancy in case of extreme weather events or natural disasters.

Port of Tauranga has applied for resource consent to develop Stella Passage in Te Awanui Tauranga Harbour. The proposal includes converting existing cargo storage land into useable berths on both sides of the harbour, with a small amount of associated reclamation and dredging. On the Sulphur Point side of the harbour, the berth extension of up to 385 metres (together with partial automation of the container terminal) would allow Port of Tauranga to effectively double its annual container handling capacity. The resource consent application is currently under consideration by the Environment Court.

What disruptions are you worried about?

The paper correctly points out that Aotearoa New Zealand lacks influence over some of the global trends and tensions that can generate economic disruption, and the fact that disruptions can open opportunities.

In our opinion, there are four key interconnected issues affecting the supply chain that can and should be addressed to improve economic resilience:

- The need for a national/supply chain-wide decarbonisation strategy that incentivises the use of lower carbon transport networks, the transition to alternative fuels or the acquisition of newer, more fuel-efficient equipment.



- Capacity and space (including protection of existing industrial zones and freight corridors as well creating new ones) as population and densification grows. Current council district plans and policies appear to do little to protect or enhance infrastructure, transport routes, or to deal with residents' sensitivities. Regional parochialism also threatens efficient investment in port infrastructure, resulting in poor productivity outcomes. This issue also includes redundancy provisions, especially in transport networks in the face of physical threats such as extreme weather events.
- Creating the right legislative framework for future infrastructure development and innovation, especially the relevancy of the current provisions of the Resource Management and Public Works Acts. In our submission, neither Act is fit for purpose in providing nor protecting a resilient supply chain.
- Automation. Due to improvements in technology, a requirement to engineer out any health and safety risks, combined with a lack of skilled workers for certain key operational roles, the supply chain will continue to move to automate their operations. The Government needs to create the right legislative and regulatory framework to encourage moves towards automation. Automation provides the opportunity to help address chronic labour shortages and create higher paid, higher skilled, safer jobs for New Zealanders, as well as support decarbonisation.

The global supply chain is complex, extensive, and interdependent. This is true at a local level too. For example, congestion at one port has a flow-on effect to all other ports in the supply chain.

Inland ports, logistics hubs and empty container facilities have a significant role to play in the aggregation and storage of cargo, and provision of empty containers to exporters. Without these facilities, transport networks and seaports would soon become clogged with containers. They also have a role to play in potential managed retreat from areas at risk from future climate change.

In addition to the main trunk network, regional rail lines must be acknowledged as a vital part of the supply chain. For example, they avoid the need to transport key bulk cargoes, including export logs, by road between Murupara/Kinleith and Tauranga.

Investment in the parts of the transport network vulnerable to extreme weather events will be required, as Cyclone Gabrielle's impact on freight corridors has demonstrated.

Climate change and decarbonisation will be key drivers in shaping the future supply chain and will inevitably lead to greater consolidation of cargo in hub locations (including inland ports), connecting to international ports servicing larger container vessels.



Advances in automation technologies have a role to play in reducing emissions as well as improving efficiencies and creating higher-quality jobs. The legislative framework could have a role in encouraging and prioritising developments that could have a positive climate change impact. For example, if Port of Tauranga is able to increase its berthage capacity for larger vessels through its berth extension project, it will justify the business case to automate container handling and storage in the adjacent terminal. Automated electric stacking cranes have around 75% fewer emissions than a comparable traditional diesel straddle carrier operation.

Decarbonisation will require significant capital investment in new technology. However, it also presents a golden opportunity to create new, higher skilled and safer jobs, and replace inefficient equipment with lower carbon, more efficient and reliable alternatives.

What is your industry doing or planning to address supply chain concerns?

In the decade to 2016, Port of Tauranga Limited invested more than \$350 million in infrastructure to accommodate larger vessels, including berth extensions, shipping channel widening and deepening, and investment in cargo handling equipment. Port of Tauranga advocates for a “hub and spoke” model, with a small number of international freight hubs supported by smaller regional ports acting as feeders to the “big ship” international services. Larger vessels have fewer emissions than smaller ships – savings of up to 30% on a typical route between Asia and New Zealand. Coastal shipping also has fewer emissions than land transport.

Rail has fewer emissions than road transport. Together, larger vessels, coastal shipping and rail offer a compelling opportunity to reduce emissions over the entire supply chain.

Inland ports and logistics hubs will have a key role to play in aggregating, storing and staging cargo volumes. These facilities need to be incorporated into urban planning, facilitated by local government, and enabled through the appropriate regulatory environment so that the private sector can invest freely.

It is Port of Tauranga’s view that, over time, the major import distribution facilities currently located in south Auckland will migrate to the Waikato region due to the cost of land differential and the ease of distributing from this location. The housing, transport, and amenity requirements of the workers in these new commercial and industrial areas will need to be accommodated (as well as protecting freight corridors). Local government should assist with this.

Port of Tauranga believes that competition is important to control prices and ensure higher quality services. The protection of diverse supply chain choices (including transport options) is desirable, within a framework of commercially sound infrastructure investment.



In certain non-competitive areas, ports and other parts of the supply chain should be encouraged to collaborate in order to better serve the supply chain. In particular, they should look to standardise the methods of supplying, receiving, and making data available. To this end, PortConnect Limited (50% owned by Port of Tauranga and Ports of Auckland) is already used by Northport, Timaru Container Terminal, Port of Lyttelton, Ports of Auckland and Port of Tauranga to provide information to the supply chain in a single standardised manner. The real-time provision of data will allow participants to optimise supply chains and reduce inefficient transport movements. This would also support the goal of moving to paperless documentation systems to improve efficiency, transparency and planning across the sector.

How can the government help?

An integrated, efficient, cost-effective, and more resilient supply chain can be achieved with Government assistance, specifically in two areas: removing regulatory and legislative barriers, and investment in transport networks (particularly rail). Current legislation and policy do not encourage or facilitate investment, even when it is environmentally sound.

Due to their monopolistic characteristics, Central Government should remain the major funder and decision maker with regard to national road and rail networks and, more recently, coastal shipping. Government investment should focus on cargo aggregation points and the transport networks (road, rail and coastal) to feed them as well as in urban areas near major transport hubs where local roading and rail infrastructure requires continued investment to ensure efficient freight movements (including, for example, grade separation). However, it is important that monopolistic networks are required to price competitively to avoid additional costs for importers and exporters and unintentional mode shift to less carbon efficient alternatives. Increased costs are inevitably passed on to consumers (in the case of imports) or can damage New Zealand exports' competitiveness overseas.

The Government should have a clear strategic plan for its national infrastructure, aligned with its objectives (e.g., decarbonisation). The market will then be free to make complementary investments to support the Government strategy. For example, Government investment in building the rail spur to Northport will allow Northport to invest in expansion to accommodate larger volumes of containerised cargo. Another example is Government investment in the Waikato Expressway, facilitating the significant iwi and private investment in the Ruakura Superhub and Ruakura Inland Port.

The Government should prioritise investments with the most impact. For example, with regard to KiwiRail, more than nine million tonnes of cargo are carried via rail into and out of Port of Tauranga each year. This equates to around 50% of the total tonnes carries on the entire national rail network. As a customer of KiwiRail, Port of Tauranga has spent in excess of \$300 million on rail transport (between Tauranga Container Terminal and MetroPort Auckland) over the past 10 years. Therefore, the resilience and efficiency of this part of the supply chain network is of vital importance nationally.



The Government has a crucial role to play in prioritising infrastructure developments across both the public and private sectors, by removing barriers to commercial investment. This includes creating a regulatory framework that facilitates infrastructure investments of national significance without costly delays, e.g., the Stella Passage development at Port of Tauranga.

Central Government could also have a role in the facilitation and support of the infrastructure necessary for shipping companies and other transport providers transitioning to low or zero emission fuels. Such support could accelerate implementation timeframes, especially if there is little or no commercial benefit in the short term. Examples include Government investment in clean electricity generation and distribution, biodiesel, and hydrogen.

What should the Commission study to learn more about economic resilience?

As discussed in the Issues Paper, diversification of imports and exports is a policy that can enhance resilience by reducing dependence on concentrated markets. We support the continued work to understand whether further public policy intervention is required in this area (particularly the role of essential intermediate and capital goods and services). Port of Tauranga considers its diverse cargoes and income streams to be a key factor in company resilience during economically challenging times.

In this vein, it would be helpful to understand the complexities in relation to import/export volumes. The source/destination of exports and imports can be unbalanced. For example, most imports are destined for the large population centre of Auckland, yet NZ exports are primarily produced in rural regions. This creates challenges including the relocation and timely supply of empty shipping containers. Cargo volumes are also highly seasonal, and certain key export cargoes are located in specific geographic areas – e.g., the forestry blocks of the central North Island and kiwifruit in the Bay of Plenty.

Understanding these flows is the key to designing an efficient, integrated, and resilient supply chain. Port of Tauranga has long been an advocate of the “hub and spoke” model utilising larger vessels and hub ports supported by coastal feeders from regional ports to aggregate cargo. Other factors to consider are population growth, the availability of industrial-zoned land for development and the potential influence of emerging technologies (including the infrastructure necessary to supply alternatives to fossil fuels).

While many of the necessary investments in the national supply chain are generational by their nature, Port of Tauranga believes there are relatively simple, low-risk, public and private investments that could have a quick and profound impact on supply chain efficiency. This includes the provision of inland ports and transport investments such as the rail spur to Northport.

Yours sincerely



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Leading through Innovation and Commitment



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