KiwiRail's Submission on the "Improving Economic Resilience" from the Productivity Commission

Thank you for providing KiwiRail with the opportunity to provide our thoughts on the "Improving Economic Resilience" issues paper from the Productivity Commission. As a key member of the transport, freight, and supply chain sectors, we look forward to continuing engagement with the Productivity Commission. If you have any questions or wish to discuss this submission, the primary contact is Arthur Ung, Senior Policy Analyst at Arthur.Ung@kiwirail.co.nz

Question 1: What supply chain disruptions and trends are you worried about?

Consolidation of Global Shipping Carriers

There has been a global trend of a consolidation of the global shipping carriers (through mergers and acquisitions). This means a greater concentration of market power is held by a smaller number of shipping carriers, and this has ramifications for the strategic and operational level for the transport sector. This poses several risks:

- bigger container ships result in greater capacity for containers, but they pose a greater risk if these ships are delayed through disruptions.
- as these ships increase in size, our markets may be relatively less attractive to the global shipping carriers who may focus growth on larger overseas markets (unless our Ports can accommodate these larger ships).
- we will need to expand ports to accommodate but most NZ ports have practical limits.

Ports and International Freight Ships

Consolidation of the global shipping carriers will result in larger ships and hence larger exchanges. This will result in fewer ship calls which will result in less flexibility, in general, to NZ exporters and importers, and the number of ships on call will not return to current levels until volume grows substantially. Moreover, these larger exchanges will put pressure on the existing landside systems to move the cargo in line with customer expectations (e.g taking longer to on/offload and using greater land, resulting in opportunity costs).

Global carriers operate independently and do not collaborate with each other, this creates challenges in developing domestic responses to emerging trends. For example, matching container supply and demand as carriers do not share or allow other carriers access to their containers.

New Zealand is exposed in multiple regards to the growth in the physical size of international freight ships. Fewer ports will be able to receive these bigger ships, and the ports that can, must have the portside infrastructure to service these ships efficiently. The ports that cannot handle the bigger ships, will receive fewer port calls, but if hubbing is provided by coastal shipping, they may continue to enjoy a similar level of service, however as global carriers do not collaborate (see above) building an efficient coastal service is problematical as evidenced by Maersk's recent cancellation of their NZ coastal service after only eight months of operation. The prospect of NZ cargo hubbing over Australia is now a reality with the removal of the Maersk NZ coastal service

Essentially this means that South Island exporters are faced with multiple transhipments before their cargo gets to its destination which impacts time to market and no doubt cost as double handling containers (trans-shipping) is expensive

However, if land transport performs a greater role to aggregate exports at larger ports (or distribute imports), then inland ports may become the substitute for some of the smaller coastal ports. Irrespective of the form of hubbing, high customer expectations will continue to put pressure on the import and export supply chains. This may increase the pressure on landside infrastructure especially due to the greater traffic volume coming through the bigger ships i.e., Container – coordination would be helpful in order to avoid congestion.

New Zealand Must Adapt to Global Shipping Trends

From a global systems perspective New Zealand must adapt – this may mean having ports that grow in line with these larger ships (this will require investment but not in every port). This may mean that we may need *fewer* but *bigger and better* ports and rethink the way in which these ports are serviced domestically, which land transport infrastructure gets serviced what role does coastal play. We need to ensure there is efficient access to our markets (for both exports/imports).

Potential for a National Port Strategy

New Zealand needs a National Port Strategy which is based on increasing resilience and meeting the global trends noted above, and if we do not have a strategy then this puts New Zealand's overseas trade at risk. For instance, ports are not immune from natural disasters as witnessed in Christchurch following the February 2011 earthquake, or in Wellington following the 2013 Seddon earthquakes. There is a risk that if ports do not continue to grow capacity, then the carriers will hub via Australia instead, potentially reducing the level of service to New Zealand exporters and importers – consequences that comes with that e.g., time (adding at least a week), and cost. We note the recent decision by Maersk to cancel their NZ coastal service after only 8 months in favour of an international service which requires NZ cargo to be hubbed via Melbourne. This move adds both time and cost to the NZ supply chain and is a trend that if continued places NZ trade at serious risk of harm.

This National Port Strategy could investigate:

- whether there needs to be a big port in the South Island e.g., upgrading the Lyttleton Port and what landside investments need to be made in support.
- whether there could be supply chains built to support trade in key overseas markets such as Northern Europe. These could be smaller sized conventional ships that would carry domestic exports to market faster and with flexibility to service regional ports both in NZ and overseas providing direct market access and these could be rolled out across NZ. This strategy was trialled during Covid with multiple NZ exporters collaborating on a bespoke shipping solution to combat both increased costs and lack of available equipment. Note this strategy will increase the bargaining power as it will consolidate existing exporters into one large customer (much like Fonterra).
- where a bespoke conventional service does not have the scale to be economically sustainable, we could look to extend the Fonterra / Kotahi shipping model to include more exporters and importers which would increase bargaining power through an aggregation of volume. Much as in the same way that Pharmac procures on behalf of New Zealand Inc.
- resilience of ports with respect to climate change. As more extreme weather events have the capacity to disrupt the entire economy (including our customers) and our wider transport network. Recent examples include cyclone Gabrielle, and floods in the upper

North Island. Greater resilience is needed throughout the supply chain, and re-instatement works offer an opportunity to build back better.

- Contingency capacity in the domestic shipping system needs to be considered especially for situations of crisis such as natural disaster. For instance, having an established and reliable ability to deploy a ship at short notice.

Movement from just-in-time to a just-in-case model

We are mindful that the shift to a just-in-case model is necessary for some commodities to provide a buffer to any supply chain disruption. The impact of COVID-19 and international supply chain constraints has demonstrated the significant risks associated with a just-in-time model when companies and households are unable to progress their activities due to a congested supply chain. It would probably be highly prudent for New Zealand to establish higher stock reserves, in general, for key stock reserves for key commodities to lessen our exposure to international supply constraints. We have seen positive indications of this approach with the proposed increase in fuel reserves, but similar approaches may need to be taken be taken for other commodities such as fertiliser, flour, sugar or machinery.

Question 2: What is your industry/community currently doing or planning to do to address supply chain concerns?

KiwiRail is lifting service capacity and reliability performance to support existing customers and grow the share of freight moved by rail. This is supported through multiple means, however primary inputs include the renewal of commercial assets including locomotives, wagons, and ferries, and lifting the national rail network to a condition of resilience and reliability through the Rail Network Investment Programme.

KiwiRail would like to emphasise the importance of a whole-of-systems approach and the importance of funding, policy, and planning for the broader transport system to function. There are key strategic documents that will improve the resilience, reliability and safety of the national rail network that will help to address supply chain concerns.

These key documents include:

- Government Policy Statement on Land Transport 2024 (GPS 2024) – this document sets the Government's priorities for land transport investment over the next 10-year period.
- NZ Rail Plan - sets out the Government's vision and priorities for rail until 2030, and the levels of investment needed to achieve it.
- Rail Network Investment Programme - sets out the three-yearly tranches of work to ensure the country has a reliable, resilient, and safe rail network.
- the Freight and Supply Chain Strategy that the Ministry of Transport is currently developing.

There are currently other supply chain concerns such as:

- Potential shortage of shipping containers (this is mainly an issue of having a reliable source of empty containers for exports). Note there are eight different types of containers ranging from special purpose containers, refrigerated ISO containers and dry storage containers. Global carriers do not share containers in a pool so one carrier may have a surplus whilst another has a shortage of the same container type at the same location exacerbating the overall shortages.

- A degree of inefficiency, from not have an optimum supply of containers in the right locations for where they are needed, and a consequent increase in empty container movements
- Having enough skilled workers. For instance, for KiwiRail we need to have enough train drivers and other key operational staff. Our below-rail business is reliant on workers with technical skills e.g., signalling. Not having enough skilled workers impacts both reliability and capacity.
- Infrastructure and rolling stock that are beyond their useful life is a key concern. KiwiRail is currently buying new locomotives and wagons that will mitigate this issue for our services and help to improve resilience and reliability, however the issues span across the road, rail and coastal infrastructure and operators.
- There is also a general point that investment in above rail infrastructure and ferries will improve resilience and capacity. KiwiRail is continuing to improve the resilience and reliability of rail which will lead to improvements to supply chain. For instance, KiwiRail has made new investment in its main Auckland rail terminal at Southdown to handle more cargo, and to make more land available for storage. This has increased the level of resilience of the Auckland supply chain.
- Development and expansion of rail served Inland Ports to support the aggregation of cargo to and from the main ports. For example, Ruakura, Rolleston and Crawford Street (Hamilton).

Question 3: How can the government help to enhance the resilience of your industry/community to supply chain disruptions?

KiwiRail believes it is important for Government to continue to invest in transport infrastructure to increase service resilience. It should do this in an integrated manner to ensure that our Ports, Rail and Roading systems are developed in a complimentary manner.

In addition, we consider the Government should take all practical steps to make New Zealand an attractive market for multiple international shipping lines, to encourage a healthy level of competition, leading to competitive shipping rates

KiwiRail agrees with a view presented by the Future Ports Forum that the importance of the Cook Strait connection needs to be identified as a strategic opportunity. The Cook Strait connection joins State Highway One and the Main Trunk Railway between the North and South Islands. KiwiRail and Bluebridge move approximately $20 billion worth of cargo and more than a million people across the Cook Strait annually, providing a connection that is vital to New Zealand's domestic economy. The current investment to renew the Interislander fleet and terminals is an important step in improving resilience.

Question 4: What should the Commission study to learn more about the economic resilience of industries and communities?

There are several studies that the Commission could undertake to learn more about economic resilience. These include:

- Gathering and studying the key learnings from cyclone Gabrielle, recent floods around the country and the most recent earthquakes in Wellington and Canterbury
- An ongoing investigation of how the country responds to natural disasters and study the inter-connected relationship between the various sectors of the economy.

- Studies on the past efforts to “rebuild better” that have been successful e.g., cyclone Bola and the Kaikoura Earthquake.
- It would be essential to have an integrated approach to study how to best ensure decarbonisation in the transport sector. For instance, where there is a rail network, and when we should use it.
- The Government can learn more about how the transport network through examining how the various modes can best respond to disruptions such as extreme weather events caused by climate change.
- Our view is that rail should be used for line haul movements and the first and last mile is provided by decarbonised transport. For instance, one locomotive driver can haul the freight equivalent to 50 truck drivers. The Commission needs to look into future, and one of shocks is needed to decarbonise – we are much better placed than trucks due to the inherent efficiency of rail.
- Examine the role that Road User Charges and HPMV permits for supper heavy trucks discourages the shift of freight from road to rail.
- The growth of our urban centres through densification and expansion (in some cases) is necessary to support a growing population. This has implications for the supply chain, with higher congestion in urban centres and increase pressure on land supply in urban centres. This can lead to an investment lag if key supply chain infrastructure is constrained in its ability to grow.

From a transport perspective:

- The Commission could investigate ways to increase co-operation between transport modes without compromising competition. The transport sector is an integrated and interconnected system, and therefore further steps should be taken to manage the sector as a holistic system, optimising the strengths and potential of each mode