

28 September 2017

Low-emissions economy inquiry
New Zealand Productivity Commission
PO Box 8036
The Terrace
WELLINGTON 6143

Dear Sir or Madam

Submission on Inquiry into a Low Emissions Economy

1. The South Island Regional Transport Committee Chairs Group ("the Chairs") welcomes the opportunity to submit on the Productivity Commission's inquiry into a low-emissions economy.
2. The key points Chairs would like to make are:
 - existing transport planning and policy settings, investment models, and forecasting methods, inhibit the development of innovative multi-modal transport solutions that could deliver emission reductions in the transport sector
 - uptake of alternative modes is an important part of transitioning to a low-emissions economy.
3. We would also consider it highly beneficial for the Productivity Commission to undertake an inquiry into how best to accommodate the significant forecast increase in freight task, in light of challenges presented for transitioning to a low-emissions economy. We think there is scope to address this within the current inquiry.

The South Island Regional Transport Committee Chairs Group

4. The Chairs Group was established in 2017. Membership comprises the Regional Transport Committee (RTC) Chairs for all South Island RTCs: that is, Southland, West Coast, Canterbury, Marlborough, Tasman and Nelson. The Chair of the Group is Councillor Terry Sloan of the Marlborough District Council and the Deputy Chair is Councillor Andrew Robb of the West Coast Regional Council. Environment Canterbury is the Secretariat.
5. The Chairs have come together on the basis that South Island regions have a common view of transport-related problems and opportunities, and will have a significantly greater impact working together. Key focus areas for the Chairs are shared advocacy, integrated multi-modal freight and visitor journeys, resilience, improved data collection, and shared knowledge and resources.

The need for mode shift to support economic, social and environmental outcomes

6. A key challenge facing the South Island is a projected 68% increase in freight volumes by 2042.¹ The majority of freight in the South Island is moved by road (over 90%), and only a small percentage moved by rail, coastal shipping or air. The freight modes that perform this task today are forecast to largely perform similar roles in the future, with a slight increase anticipated in the proportion of freight shifted by road.
7. This reliance on road freight raises questions given:
 - that the South Island has been significantly impacted by network disruption as a consequence of seismic events and other natural disasters, and that there is a present and ongoing risk to supply chains
 - the potential effects of a significant increase in road freight, including road condition and maintenance costs, travel time reliability, road safety, and visitor experience
 - the increasing demand for more sustainable, low CO₂ supply chains.
8. Chairs consider that the availability of effective transport alternatives is a core component of a resilient, multi-modal transport system, whether this be:
 - good quality walkways and footpaths and cycling infrastructure that enable connectivity (particularly in light of the ageing population)
 - reliable and efficient public transport services that reduce dependency on the single occupancy vehicles that congest urban centres, or
 - wider consideration of the role rail and coastal shipping can play in developing resilient freight supply chains and reducing congestion.
9. These alternatives to road transport also support emission reductions in the transport sector. New Zealand has one of the highest rates of car ownership among members of the Organisation for Economic Co-operation and Development (OECD) and a relatively old vehicle fleet, with the majority of freight being transported by emission-intensive trucks rather than by train or coastal shipping.²

Example: A good example of planning for low emission modes of travel and which moves beyond a car-based journey approach, exists in Queenstown. State Highway 6A between Frankton and Queenstown is already heavily congested at times and predicted tourism growth will worsen this considerably. Since the road corridor is physically constrained, the Wakatipu Transport Strategic Partners Group is investigating other forms of transport for tourists and commuters alike, such as a gondola along Queenstown Hill, above the state highway. Business cases that consider novel, low emission approaches such as this, should become the rule rather than the exception.

¹ South Island Draft Freight Plan (2015).

² Ministry for the Environment (2016), *New Zealand's Greenhouse Gas Inventory 1990-2014*.

The existing funding approach, policy settings and network infrastructure favour road solutions

10. First, price signals should encourage transport operators to choose the mode that imposes the least costs on society for the required service parameters and quality, and promotes a range of outcomes including that of a low emissions economy. In the context of choices made by international shipping companies, the Productivity Commission has observed that subsidies which distort these choices impede the goal of economic efficiency.³ In fact, they also impede other goals, including the goal of Energy and Efficiency and Conservation Authority to have an energy productive and low emissions economy.
11. A 2005 study by the Ministry of Transport found that cars directly pay 64% of their costs, trucks directly pay 56% of their costs, and buses directly pay 68% of their costs.⁴ In contrast, all users pay 77% of the total costs of rail (rail freight users pay 86% of their costs). Much of the truck activity included within the 56% took place within urban areas and was not considered capable of movement by rail. However, the study concluded that the initial findings suggested that if prices paid by commercial vehicles to use the roading network were raised to cover more of the costs they generate, this could support a shift of suitable traffic to rail which in turn, would be likely to increase the overall financial viability of rail.
12. Second, the existing transport funding model incentivises councils to focus exclusively on road transport solutions, and regions are unable to adopt the best solution to transport issues, whether it be road, rail, air or sea.

Example: the Marlborough RTC has been dealing with the issue of log cartage from the Pelorus and Kenepuru Sound areas. Significant commercial forestry was established in these areas in the 1980s and 1990s, supported by government subsidy. These forests are now ready for harvest but the required infrastructure is not in place. The cost of upgrading the Kenepuru Road to an appropriate standard is around \$6.1 million. In contrast, the cost of establishing a barging facility and upgrading roads to that facility is estimated at \$930, 000. Barging the logs would also lead to less wear and tear on roads. Barging is also the cheaper option for forestry companies; although it requires double handling, the cost can be weighed against the distance trucks need to travel. The current GPS does not permit the funding of a barging solution.

³ Productivity Commission (2012) *International Freight Transport Services Inquiry*.

⁴ Ministry of Transport (2005) "Surface Transport Costs and Charges: Summary of main findings and issues". <http://www.sef.org.nz/papers/STCC%20overview.pdf>

Further work is needed to investigate the opportunity for mode shift and thereby reducing emissions

13. Central government needs to adjust funding and policy settings to support regions to develop innovative multi-modal solutions, where reducing transport emissions is a real possibility.
14. We have viewed the Ministry of Transport's submission on this inquiry, which refers to the limited potential of rail and coastal shipping mode shift to mitigate emissions due to short-haul and time-sensitive freight being more suited to transport by road.
15. The Productivity Commission has previously acknowledged:

There is some contestability, however, between transport modes. A small proportion of the road freight task is contestable by rail, and one estimate is that 8% of the overall freight task in tonnage is contestable by coastal shipping.

16. There appears to be a small amount of existing research that considers the opportunity for mode shift. This research is not necessarily consistent. Chairs are concerned that existing figures are based on the ability for shipping and rail (given the existing state of infrastructure and policy settings) to take more freight, rather than the extent to which projected freight volumes might be suitable for shipping if the capacity and enabling settings were there.
17. One study that considered the opportunity for mode shift for road to rail, observed that it could be regarded that New Zealand's coastal shipping and barging is under-utilised and with infrastructure investment in this mode, shipping could significantly assist in transporting our growing freight task in the future.⁵
18. Chairs intend to commission research to support a robust inquiry into whether and how a degree of mode shift from road to rail, air and/or sea could improve economic, social, and environmental outcomes, and reduce the likelihood and impacts of network disruptions caused by natural disasters by increasing the resilience of the network.
19. Chairs would consider it highly beneficial for the Productivity Commission to undertake an inquiry into how best to accommodate the significant forecast increase in freight task, in light of impacts such as the challenges presented for transitioning to a low-emissions economy. We think there is scope to address this within the current inquiry.

⁵ Mackie, Baas, Point (2007) Prediction of freight growth by 2020 and rail's ability to share the load.

20. In the context of the current inquiry, Chairs also think it would be helpful for the Commission to explore the potential role of active (walking and cycling, including electric bikes) and public transport in the transition to a low-emissions economy, and identify whether and what additional incentive structures would be required for this. Chairs consider that accessible transport alternatives, and an efficient transport system more broadly, present significant opportunities for reducing emissions in transport, while also providing many other benefits.

Yours sincerely

A handwritten signature in blue ink, consisting of stylized initials 'TS' followed by a long horizontal line extending to the right.

Terry Sloan
Chair, South Island Regional Transport Committee Chairs Group