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Upper North Island Supply Chain Strategy

SECOND INTERIM WORKING GROUP REPORT: OPTIONS AND ANALYSIS

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Upper North Island Supply Chain Strategy Second Interim Working Group Report: Options and Analysis

Background

The Upper North Island Supply Chain Strategy Working Group was asked by Cabinet to undertake a comprehensive review of New Zealand's freight and logistics sector for the Upper North Island, including ports. This review will guide the development and delivery of a strategy for the Upper North Island to ensure the supply chain is fit for purpose in the long-term.

The Working Group

We are the independent working group leading this review. We have expertise in a range of areas including economic and business development, regional development, transport and logistics, infrastructure management, investment and planning.

Wayne Brown (Chair): Mr Brown, engineer, builds and owns roads, pipe networks, subdivisions and commercial buildings, very experienced in fixing Auckland infrastructure messes, appointed to chair Vector back to reliability and profit following Auckland CBD Power failure, chaired Auckland DHB to get \$500m Auckland City Hospital build back on time and budget, publicly predicted major electricity supply failure at Penrose then appointed to chair Transpower to bring 400kva line up through Waikato and upgrade supply through Auckland, founding chair of Kordia and drove introduction of Freeview, appointed to chair LTSA to sort out digital driving license fiasco, also former two term Mayor of Far North.

Vaughan Wilkinson: Mr Wilkinson has 37 years experience in the agriculture and fisheries sector, and has been involved in a range of roles spanning from teaching to research to senior management, most recently with Sanford Limited. He has also held a number of directorships, mostly in the marine and fisheries sector.

Susan Krumdieck: Ms Krumdieck is a Professor in Mechanical Engineering at Canterbury University and has spent the last 17 years consulting for local government, government departments and community groups on a number of transport, energy and future demand projects. She has strong academic background and in-depth understanding of engineering and transport modelling.

Shane Vuletich: Mr Vuletich has spent the past 17 years consulting on a number of major events, business strategies and providing advice on provisions of tourism and infrastructure. He is currently the Managing Director of the Fresh Information Company specialising in strategy, measurement, evaluation and forecasting and has a strong analytics and economic background. Mr Vuletich was a member of the Port Future Study Group commissioned by Auckland Council.

Gregory Miller: In our earlier phases we benefitted from the experience of Gregory Miller. Mr Miller has three decades of experience in the logistics and global supply chain sector, having been the Managing Director of Toll New Zealand and the Global Development Manager of Mainfreight Group Limited. Mr Miller is a Fellow of the Chartered Institute of Transport and Logistics and has a wealth of supply chain knowledge both domestically and internationally to this role. He is the current Chief Executive of KiwiRail.

Noel Coom: In our earlier phases we benefitted from the expertise of Noel Coom. Mr Coom spent 46 years in the shipping, rail, freight and logistics sector. He was previously a senior manager in a number of shipping companies in New Zealand, Los Angeles and Sydney, as well as the previous Group General Manager of TranzRail in New Zealand. Mr Coom is a current Director of Mondiale Freight Services Limited and previously served as a member of the Port Future Study Group commissioned by Auckland Council.

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Second Interim Report

Our first interim report presented the progress we made in the first stage of our work. This included a number of site visits, including visits to Northport and Ports of Auckland, supported by stakeholder engagement and initial analysis and advice to gain an understanding of the current system. We have since also visited Port of Tauranga and met with a number of other stakeholders.

A number of key themes emerged during our discovery phase that are guiding us in our review. These include:

- **inefficiencies** of the network, encompassing rail, road, ports, inland ports and freight hubs
- **complex and inefficient owner relations** between the ports, network infrastructure and assets
- the importance of **social licence** and working within the communities that the network is there to serve, particularly in Auckland but also in Tauranga
- **infrastructure investment** by different parties and their rationales
- the **wider context** within which the Upper North Island Supply Chain Strategy is being conducted, with a particular emphasis on **optimal land use**.

This second report back to Cabinet builds on our interim thinking and provides a strategic and investigation of the Upper North Island Supply Chain. Our work in this term has focused on determining the possible options that different stakeholders have and using a strategic approach to analyse whole system performance. Our economic analysis has been used to guide our thinking but is necessarily built on assumptions of future supply chain performance, the analysis may therefore be further refined as we progress toward our final report later this year.

Options and Analyses

We have undertaken an economic and multi-criteria evaluation of a range of potential future options for the configuration of the Upper North Island Supply Chain. Combining this with our stakeholder consultation and additional research undertaken (polling activity and other advice), we have identified a preferred option for the design of a future Upper North Island Supply Chain. We will expand and develop the requirements for this option, including potential implementation plans, as we progress our final report due later this year.

Under the direction of the Working Group, a consortium led by Ernst and Young, including experts from Advisian, Warren & Mahoney and WT Partnership, undertook the analysis.

Strategic Principles

We have built on the key themes that emerged in our discovery phase to develop a range of strategic principles to assist in the evaluation of options for a future supply chain:

1. Cost efficiency in moving freight

Moving freight is critical to the New Zealand economy and we believe that we must present a future supply chain that allows the costs of moving freight to be kept as low as possible. This is particularly important in considering any reconfiguration of the supply chain, as we do not have the ability to direct freight. Freight will flow in the most cost efficient way possible as the market allows.

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2. Maintaining the level of competition in the supply chain

We do not consider a strategy that promotes monopolism to be in the best interests of New Zealand. Healthy competition between ports and transport providers in the supply chain is a good driver of innovation and cost effectiveness. We think that preserving the current level of competition in the Upper North Island Supply Chain, particularly in relation to the number of ports, is critical for the success of the supply chain.

3. Reducing the 'friction' between freight and passenger movements

It is important that the strategy reduce friction between freight and people as much as possible. We therefore have considered a future supply chain that favours the provision of infrastructure that limits the degree to which freight activity impinges on public areas, and reduces the interaction between freight and passenger movements, particularly in congested areas. We are therefore prioritising freight modes such as rail, and coastal shipping where possible, and place particular emphasis on optimal land use.

4. Maintaining or improving the resilience of the supply chain

We believe the strategy must provide confidence that the Upper North Island supply chain has the ability to continue moving freight in the event of a natural disaster or other events that impact areas of the Upper North Island. We therefore think that as a minimum, a two-port system is needed for the Upper North Island. Given the significance of the Upper North Island supply chain to the rest of the country, we do not think that a strategy that relies on one port is in the best interests of New Zealand.

5. Contributing to overall government objectives

We are committed to developing a strategy that contributes to overall government objectives. We are therefore giving priority to a future supply chain with focus on road safety, reducing CO₂ emissions, and economic development of the regions (in particular Northland).

Scenarios and Options

We used our broad engagement to develop a set of possible scenarios that included many of the options proposed in previous studies and stakeholder ideas. We used our strategic principles to guide and develop the economic analysis of the scenarios, drawing on a number of contemporary analytical approaches. More detail on the methodology, process, data and results are attached in the economic analysis report¹.

The strategic scenarios and options we have considered are:

1. Maintaining the current status-quo, whereby the Upper North Island is serviced by Port of Tauranga and Ports of Auckland, and Northport to a lesser extent;
2. Managed closure of the POAL freight operations², Northport develops to capacity equivalent to the Ports of Auckland, including appropriate levels of landside infrastructure and capacity to grow as levels of freight increase. Port of Tauranga continues its planned development.
3. Managed closure of the POAL freight operations, Port of Tauranga expands capacity to be able to accept the freight of the Ports of Auckland in addition to it's own, including appropriate levels of landside infrastructure and capacity to grow as levels of freight increase. No major development at Northport.

¹ Economic Analysis of Upper North Island Supply Chain Scenarios

² We assume that Cruise Liner operations will remain at POAL

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4. Managed closure of the POAL freight operations, both Northport and Port of Tauranga expand capacity to be able to accept the freight of the Ports of Auckland, in addition to their own, including appropriate levels of landside infrastructure and capacity to grow as levels of freight increase.
5. Managed closure of the POAL freight operations, a new “super” port in the Upper North Island is built that can handle the Ports of Auckland freight task, along with appropriate landside infrastructure and capacity to grow as levels of freight increase.

Our preferred option

Based on the multi-factorial analysis undertaken, we believe that option 2: the managed closure of the POAL³, the development of Northport and continued operation of the Port of Tauranga; provides the greatest level of benefit to the upper North Island and New Zealand. The benefit cost ratio for this option is 2:1. This scenario also includes development of land-side infrastructure consisting: a rejuvenated the North Auckland Rail line and spur to Northport; a new inland freight hub in the Northwest of Auckland complementing Metroport in the South.

There are a number of reasons why this two-port solution is our preferred option:

- It promotes resilience in the supply chain by providing two distinct North and South entry points for international freight originating in and destined for Auckland;
- It reduces levels of friction in the Auckland CBD which is currently a congested entry point for freight out of Ports of Auckland and provides two alternative entry points into the city;
- Friction with urban personal transport and regional deliveries could be further reduced by a dedicated freight rail line through the Avondale corridor connecting the two main freight hubs;
- It allows for alternative use of the Auckland waterfront land, and returns the harbour to the people which helps Auckland to achieve its ambition of becoming a more “liveable city”. 62 percent of Aucklanders, polled on behalf of the working group, believe that moving the port would make Auckland a better place to live, work and visit⁴.
- It potentially improves road safety by increasing rail freight capacity;
- It promotes opportunities for regional development and employment in Northland and supports further growth in the Bay of Plenty;
- It maintains levels of competition in the Upper North Island Supply Chain, fosters innovation and cost effectiveness/efficiency of freight delivery;
- It maximises the use of the existing port system and the availability of surrounding land at Northport, noting potential alignment with other strategic projects such as a new drydock and rail staging for NZ refinery in west Auckland;
- We consider the Upper North Island can be effectively serviced by the existing ports without the need for the significant capital investment and development required to create a new port.

Time and budget constraints have meant that our economic analysis does not consider wider, potentially significant, benefits to Auckland from changing the use of the port land, for example uplift in land value in areas adjacent to the POAL.

³ With the exception of the cruise ship operation

⁴ Research report: Aucklanders’ sentiment to moving the Auckland Port

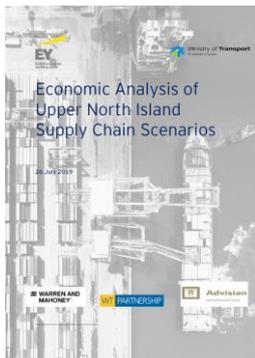
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Next Steps

We now move into the final stage of our work where we will consider how to transition from the current state to our preferred option. We intend to deliver a final report in September 2019. This will report on our recommended strategy to achieve our preferred solution and will be guided by our strategic principles.

Our recommendations will include priorities for infrastructure investment, optimal regulatory settings, future challenges on which government and industry will need to work together and key actions to be taken over the next five years and beyond to implement a two-port strategy for the Upper North Island.

Attachment 1: Economic Analysis of Upper North Island Supply Chain Scenarios



Attachment 2: Aucklanders' sentiment to moving the Auckland Port

