

Chair
Cabinet Economic Development Committee

Upper North Island Supply Chain Strategy Interim Report

Proposal

1. This paper seeks to reconfirm the mandate of the independent Working Group and proposes an approach including revised timeframes for finalising the Upper North Island Supply Chain Strategy. This paper includes the interim report back from the Working Group.

Executive summary

2. Cabinet is asked to agree the Working Group's plan to finalise the Upper North Island Supply Chain Strategy by September 2019.
3. The Working Group intends to take a strategic and investment-based approach (the approach) to its task. In this approach the Working Group would determine the optimal port and supply chain network for the upper north island, and focus on how to bring that about for the future. This approach would involve the selection and evaluation of different port, freight flow and infrastructure options and scenarios, supported by detailed analysis of the current and future supply chains.
4. Joint Ministers for the Upper North Island Supply Chain Strategy, the Minister of Transport, the Minister of Finance and myself as Associate Minister of Transport, are comfortable with the proposed approach. We note that adoption of the approach is within the scope of the Working Group's Terms of Reference.
5. The Working Group's interim report is attached to this paper for your noting. The report gives a holistic and forward thinking approach by giving consideration to land use, the importance of resilience as well as land-side externalities from ports through congestion, emissions and damage to roads.
6. To support the Working Group's approach, I believe it should further examine existing comprehensive studies of freight flows and the port network in New Zealand. These studies provide an abundance of research and analysis upon which to build. I expect this evidence to be reflected in the Working Group's ensuing analysis and reports.
7. I further expect the Working Group to report on different options and scenarios in June 2019, and deliver a final report with their recommended actions in September 2019. Once confirmed by Cabinet, the final report will act as a decision-making foundation for the Government on the future of ports in the upper North Island.

8. Extensions to the terms of the current Working Group membership have been noted by Cabinet.

Background

9. In December 2017, Cabinet agreed a working group be established to review New Zealand's freight and logistics sector for the Upper North Island, including ports, and develop a proposed Upper North Island Supply Chain Strategy [CAB-17-MIN-0550 refers].
10. Cabinet agreed to the summary Terms of Reference which:
 - 10.1. guide the development and delivery of a freight and logistics strategy for the Upper North Island, including ports
 - 10.2. advise on the priorities for investment in rail, roads and other supporting infrastructure
 - 10.3. advise on the feasibility on options for moving the location of the Ports of Auckland, including giving Northport serious consideration.
11. It was intended that the independent Working Group would commence their work as early as possible in 2018, and report on:
 - 11.1. the findings of the supply chain study, specifically in the Upper North Island, including ports, by July 2018
 - 11.2. priorities for investment in rail, roads and other supporting infrastructure, and future challenges on which government and industry will need to work together by December 2018; and
 - 11.3. a feasibility study to explore options for moving the location of the Ports of Auckland, including giving Northport serious consideration by December 2018.
12. To ensure the appointments provided for an appropriate mix of skills and experience, and to effectively carry out enquiries concerning conflicts of interest, the appointment process took longer than anticipated. The Working Group appointments were effective from August 2018.
13. In October 2018, joint ministers responsible for the Upper North Island Supply Chain Strategy met with the Chair of the Working Group to discuss progress of the review.
14. At this meeting, the Chair indicated the approach the Working Group would like to take differs from the approach set out in the Terms of Reference. It was agreed the Working Group needed to refresh its mandate and agree an approach and revised timeframes through an interim report back to Cabinet in February 2019.

Working Group membership

15. The Working Group is made up of six members who report to the Ministers of Finance, Transport and Regional Development (Joint Ministers):
 - 15.1. Wayne Brown (Chair)
 - 15.2. Noel Coom
 - 15.3. Susan Krumdieck
 - 15.4. Gregory Miller
 - 15.5. Shane Vuletich
 - 15.6. Vaughan Wilkinson.
16. Vaughan Wilkinson was appointed on 9 November 2018. This appointment followed the resignation of Sarah Sinclair from the Working Group on 12 September 2018 due to a conflict of interest, which she deemed would not allow her to participate fully in the Working Group.
17. The Working Group appointments ended on 28 February 2019. I consider the original timeframe of 12 months provided an appropriate amount of time to achieve Cabinet's agreed objective to create a robust supply chain action plan that delivers to New Zealand's interests over the next 30 years.
18. Given the Working Group appointments were effective from August 2018, with the first meeting of the Working Group in September 2018, I have undertaken to extend the term of the current Working Group's membership for a period ending on 30 September 2019. Cabinet has noted my intention to reappoint the Working Group [CAB-18-MIN-0543].

Progress to date

19. The Working Group had its first meeting on 3 September 2018 and has met regularly since. In these meetings, the Working Group has established its interpretation of the Terms of Reference, which is to develop a strategy for an efficient freight network for the upper North Island (ports, land and rail and road networks) that delivers the best outcomes for New Zealand.
20. To date the Working Group has been in a discovery phase. The group has undertaken a number of site visits, including visits to Northport and Ports of Auckland and is planning a visit to Port of Tauranga. These visits have been augmented by advice from Government, fact-finding, stakeholder engagement and initial analysis of the supply chain to gain an understanding of the freight system.
21. The Working Group has also formed its view on the scope of the remaining process and deliverables, the process it will follow and the timing of the delivery of a strategy.

22. This work is presented in the Working Group's interim report.

Stakeholder engagement

23. The Working Group has engaged with a number of stakeholders and key interest groups including representatives from the three upper North Island ports, inland freight hubs, the road freight industry, the shipping industry, commercial interests, cargo interests, and other interested parties.

24. Stakeholders the Working Group has engaged with to date include: Northport, Ports of Auckland, Port of Tauranga, Auckland Council, Northland Regional Council, Marsden Maritime Holdings Ltd, Road Transport Forum, Toll, Transport Investments Ltd, NZ Shipping Federation, Pacifica / Swire Shipping, Armacup Shipping, International Container Lines Committee, NZ Shippers Council, Auckland Chambers of Commerce, Auckland Waterfront Consortium, Custom Brokers and Freight Forwarders, Fonterra, Kotahi, CODA, PTS Group, Motor Industry Association, Imported Motor Vehicle Industry Association, Dolphin Shipping New Zealand, Auckland Transport, Tainui Group Holdings Ltd, Richard Pearson of CK Hutchison Group, Waikato Regional Council, AFFCO, Open Country Dairy and Talley's.

25. Stakeholders have provided feedback on:

25.1. the strengths and weaknesses of the upper North Island's current three port freight system;

25.2. the opportunities that exist to improve the upper North Island's freight system over the next 10, 25 and 50 years;

25.3. the main threats to the upper North Island's freight system over the next 10, 25 and 50 years;

25.4. the ownership structures of the three upper North Island ports and whether these are providing optimal outcomes for New Zealand;

25.5. how the upper North Island freight system might be structured if there was an opportunity to redesign the system from scratch; and,

25.6. further questions implied by the current Terms of Reference.

26. Key themes arising from this engagement are presented in the Working Group's interim report attached.

External support

27. The Working Group is using external support to provide analysis of the Upper North Island freight system. This includes analysis of:

27.1. the current Upper North Island freight system, including sea ports, inland freight hubs, the road and rail network, coastal shipping, and ownership structures.

- 27.2. the past, present and future Upper North Island freight task
 - 27.3. the financial performance of the three Upper North Island ports
 - 27.4. the land values and opportunity costs of the three Upper North Island ports
 - 27.5. the regional growth context.
28. Initial findings from this analysis are presented in the Working Group's interim report attached.

Government advice

29. The Working Group has commissioned and received advice from the Ministry of Transport on the legislation and regulatory framework that applies to ports and from the Ministry of Primary Industries on the bio-security context and procedures of imported goods into New Zealand, particularly vehicles.

Plan to finalise the Upper North Island Supply Chain Strategy

30. Joint Ministers recognise the significance of this piece of work, and reinforce that the strategy needs to be of high quality, evidence based and thorough.
31. In agreeing to the Working Group's Terms of Reference in December 2017 Cabinet was advised of the wider context and methodology for the Upper North Island Supply Chain Strategy. The first phase was to undertake a comprehensive review to determine current and expected information about the Upper North Island ports, freight and logistics supply chain. The second and final phase was the delivery of a proposed Upper North Island Supply Chain Strategy, including a feasibility study of moving the Ports of Auckland, with serious consideration to be given to Northport.
32. There have been a number of comprehensive studies of freight flows and the port network in New Zealand, which have provided an in-depth understanding of the New Zealand freight task. However, these reports have languished and no real action has come from them.
33. Rather than repeat history and produce another comprehensive supply chain study, the Working Group wishes to take a strategic and investment-based approach. In this approach, the Working Group would determine the optimal port and supply chain network, and focus on how to bring that about for the future, taking into account previous studies of freight flows and the port network.
34. This approach would involve the selection and evaluation of different port, freight flow and infrastructure options and scenarios. This assessment of these options would be supported by analysis of the supply chain, including current and expected freight flows between the upper North Island ports and supporting infrastructure such as inland freight hubs, road and rail.

35. Joint Ministers are comfortable with the approach. However, I believe to support the approach, the Working Group should further examine existing comprehensive studies of freight flows and the port network in New Zealand. I expect the evidence in these studies to be reflected in the Working Group's ensuing analysis and reports. I intend to request the Working Group review and analyse those previous studies, and address any gaps that arise.
36. I also expect the Working Group to consider a short list of possible future options, including the option of moving the location of the Ports of Auckland, giving Northport serious consideration. I believe a strategic and investment based approach can be applied to those options to support their recommendations and ensure an enduring strategy is arrived at.

Alternative approaches to the study

37. In considering how to progress the study I have considered some alternative approaches:
- 37.1. The strategy is predominantly led by officials, using the Working Group to provide direction and assurance of the task. This is likely to result in a loss of momentum, increased cost due to the requirement of additional resources and may undermine confidence of the Working Group and the independence of their recommendations.
- 37.2. To discontinue the Working Group, but with an alternative programme of work commissioned by Cabinet. This would be costly and it is unclear what an alternative programme of work would add beyond that of the proposed approach.
- 37.3. To discontinue the Working Group without commissioning an alternative programme of work. This would result in a failure to deliver a strategy which is critical to lifting and securing the economic well-being of New Zealanders.
38. I have decided to proceed with the approach as proposed by the Working Group. I have confidence in the Working Group, whose members bring an extensive and complimentary set of skills, knowledge, and experience to the study. The group has demonstrated considerable progress and quality advice through its interim report, and I am confident it is capable of completing the study to a high standard.

Deliverables and timeframes

39. The Working Group proposes to deliver:
- 39.1. a preliminary report in June 2019 to provide a fuller update on the Working Group's progress, and report on the evaluation of different port locations (including Northport as an alternative location for the Ports of Auckland), freight flow and infrastructure options and scenarios for the upper North Island to be supported by detailed analysis of the supply chain augmented by evidence from previous studies; and,

- 39.2. a final report in September 2019 to report on the Working Group's conclusions and recommended actions to be taken over the next five years and beyond. This will include priorities for investment in rail, roads and other supporting infrastructure, and future challenges on which government and industry will need to work together.
40. I endorse the Working Group's proposal and seek Cabinet agreement that the Working Group adopt the proposed strategic and investment based approach to continue to work on the Upper North Island Supply Chain Strategy.

Consultation

41. The Treasury and Ministry of Transport have been consulted.

Treasury comment

42. Treasury recommends against amending the Terms of Reference to no longer require a supply chain study as a deliverable.
43. A full supply chain study should assess the efficiency and effectiveness of the supply chain by identifying the costs and benefits of different modes and assessing freight and logistics demand into the future to identify capacity constraints. This should include an analysis of the entire supply chain, both upstream and downstream of the principal ports, including inland ports, logistics hubs, road, rail and other modes such as coastal shipping. Understanding the performance of these different components of the supply chain is an important basis to inform the cost-benefit assessment of the options for infrastructure investment and moving the location of the Ports of Auckland.
44. Although the Working Group state that their 'strategic and investment approach' will be supported by supply chain analysis, a dedicated supply chain study as described above is more likely to ensure an evidenced, transparent and credible basis for the assessment of options and final recommendations in the review.
45. Treasury is comfortable with the other changes to the deliverables under the Terms of Reference, specifically a preliminary report in June 2019 and a final report in September 2019.

Financial implications

46. Cabinet previously agreed to re-prioritise \$850,000 from Vote Business, Science and Innovation Economic Development: Regional Growth Initiatives, to Vote Transport to fund this work.
47. To date, circa \$75,000 has been spent. This has covered the direct costs of running the Working Group, and additional costs of travel, accommodation and expenses.

48. The Ministry of Transport has provided Secretariat support to the Working Group, which has been met within the existing Ministry of Transport baseline.

Human rights, gender and disability perspective implications

49. There are no human rights, gender or disability perspective implications associated with this paper.

Legislative implications

50. There are no legislative implications associated with this paper.

Regulatory Impact Analysis

51. The proposals in this paper do not require regulatory impact analysis.

Publicity

52. Progress updates are provided on the Ministry of Transport website. To date, wider publicity and media has largely focused on the Ports of Auckland rather than on the broader issues set out in the Terms of Reference.

Proactive release

53. Following Cabinet agreement to this paper I intend to release it, and the attached interim report from the Working Group on the Ministry of Transport website.

Recommendations

54. The Associate Minister of Transport recommends that the Committee:
1. **note** the Working Group's interim progress report on the Upper North Island Supply Chain Strategy attached to this paper
 2. **note** that on 20 February 2019 APH noted my intention to reappoint the Working Group for a period ending on 30 September 2019
 3. **note** that I have reappointed the Working Group, conditional to this Committee agreeing the Working Group continue to develop the Upper North Island Supply Chain Strategy
 4. **note** that there have been a number of comprehensive studies on freight and the port network in New Zealand; and that the Working Group will take greater consideration of these studies in their subsequent analysis and reporting
 5. **agree** the Working Group continue its work on the Upper North Island Supply Chain Strategy, taking a strategic and investment based approach supported by analysis of the supply chain

6. **note** that the proposed strategic and investment based approach is consistent with the scope of the Working Group's Terms of Reference
7. **agree** the Working Group deliver a report in June 2019 to provide an the results of the evaluation of different port locations (including Northport as an alternative location for the Ports of Auckland), freight flows and infrastructure options and scenarios; and a final report in September 2019 with the Working Group's conclusions and recommended actions to be taken over the next five years and beyond
8. **note** the Associate Minister of Transport's intention to release this paper and the attached interim report following Cabinet agreement.

Hon Shane Jones
Associate Minister of Transport

Dated: _____

Released by the Associate Minister of Transport