

Chair
Cabinet Economic Development Committee

Upper North Island Supply Chain Strategy Final Report

Proposal

1. This paper presents the Upper North Island Working Group's final report to Cabinet and seeks agreement to develop a programme of further work necessary to respond to the Working Group's recommendations.
2. There is a companion paper to this Cabinet paper, Provincial Growth Fund: UNISCS and Northland Rail Investment, that recommends PGF investment in rail in response to the recommendations of the Upper North Island Supply Chain Study.

Executive Summary

3. The Government established the Working Group 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 (UNISCS).
4. The Working Group has provided us with its final report. We recommend this is publicly released following consideration by Cabinet and in parallel with early engagement with cornerstone partners to any future initiative. With receipt of the final report, we note that the Working Group's work has concluded.
5. The Working Group concluded that Ports of Auckland Ltd freight operation in central Auckland is no longer economically or environmentally viable. They recommended that a transition to an alternative should be completed by no later than 2034, fifteen years hence, with a stretch target of 2029
6. The Working Group considered eight scenarios to determine the most efficient arrangement of upper North Island ports. The Working Group's preferred option is the managed closure of the Ports of Auckland's freight operations, the development of Northport and the continued operation of the Port of Tauranga. The Working Group also recommend possible regulatory and legislative intervention to achieve their preferred option, if necessary.
7. The Working Group's approach is to encourage commercial supply chain organisations, including port land owners and operating companies, to make the substantial investment in the change. As such, the Working Group estimate total projects costs at \$10.3 billion, with the Crown's investment estimated to be \$3-4 billion over the next 10 - 15 years for the rail and road infrastructure.
8. The Working Group present some strategic arguments that support further examination of a port move from Auckland to Northport. There are a number of issues

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that arise from the Working Group's analysis and recommendations that have implications for Government actions and investments, as well as those of the private sector.

9. To inform Cabinet decisions on the upper North Island supply chain strategy, we have asked officials to undertake further work and sensitivity analysis on the Working Group's recommendation – the full move to Northport scenario – and other scenarios considered by the Working Group. We have also asked officials to inform us of the implications for the Crown and private sector of shifting the port arrangements.
10. The key issue for Cabinet to consider when it takes decisions on the Working Group's recommendations is whether the potential gain to New Zealand from the port move is sufficient to justify the significant Crown seed investment and possible need for regulatory and legislative intervention.
11. It is important to recognise the limited share of decision making rights that the Crown holds in relation to port relocation. We advocate early and open engagement with the owners of the current upper North Island ports comprising the three councils and land owners (Auckland Council, Bay of Plenty Regional Council, Northland Regional Council and Marsden Maritime Holdings Ltd.) and the Port companies (Ports of Auckland Ltd., Port of Tauranga Ltd. and Northport Ltd.).

[Redacted]

13. Alongside this engagement, we recommend a work programme be undertaken to extend the analysis undertaken by the Working Group. This would include assessment of the recommended Northport scenario, involving the shift of the Ports of Auckland. Other scenarios looked at by the Working Group would also be considered. We will report back to Cabinet with the results of the analysis in May 2020, covering three broad areas:

13.1. Technical and public policy work streams, covering logistics and supply chain analysis, transport modelling, land use planning analysis and legislative and regulatory considerations

13.2. Commercial work streams, covering funding and finance, and governance and commercial arrangements

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13.3. Communications to support the above work streams [Redacted]

14. Alongside the UNISCS, the Provincial Development Unit has been exploring the potential for rail investment in Northland funded from the Provincial Growth Fund (PGF). Two projects are proposed for approval in a companion Cabinet paper and comprise \$69.7 million to fund the remaining work on the North Auckland Line (NAL) NAL for 2019-21 and \$40 million to fund the acquisition of the remaining land for the Marsden Point Link (MPL).

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The Working Group recommend a full move to Northport

15. The Working Group's final report has built on their interim reports and economic and qualitative analysis to summarise the steps needed to achieve positive outcomes for the Upper North Island Supply Chain and wider Government social, environmental and economic development objectives.
16. The Working Group describe a number of barriers to efficient freight operation which hamper the delivering of freight in the upper North Island and the associated implications of future growth in freight. The key barriers include:
 - **The lack of cooperation between ports**, which has negatively impacted New Zealand's ability to negotiate effective freight prices from international shipping lines
 - **The complex ownership structure of upper North Island ports** which provides perverse commercial incentives and creates a barrier to an efficient system
 - **The growing congestion issues in Auckland** outside the port gate are driving inefficiencies in the supply chain and in other aspects of life in Auckland that undermine its social license to operate and expand to meet future demand
 - **The supply chain sector is not an open transparent sector cost-wise**, with participants not willing to share information for competitive reasons
 - **Future freight growth across the upper North Island is increasingly placing pressure on existing infrastructure behind the Auckland port gate**, requiring POAL to invest heavily to ensure the port remains operable beyond the next 10 years. These pressures also extend outside the port gate across the upper North Island.
17. On the basis of these barriers, the Working Group concludes that Ports of Auckland's freight operation in central Auckland is no longer economically or environmentally viable. The Working Group see a number of other factors that support their recommendation, such as Ports of Auckland's inability to operate into the future without undertaking significant dredging of Waitematā Harbour and future freight challenges for other parts of the upper North Island, such as Northland.
18. Given this, the Working Group's preferred option is the managed closure of the Ports of Auckland's freight operations, the development of Northport and the continued operation of the Port of Tauranga. This was recommended after examining eight scenarios.
19. The Working Group suggests this proposal should be largely commercially driven, but notes that regulatory intervention may be needed if cooperation is not forthcoming. It notes that the ownership structures, particularly at Northport, may constrain implementation, and so regulatory options may be needed (such as legislation requiring the divestment, purchase and consolidation of shareholdings in relevant ports to enable growth at Northport).

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20. It also notes that transition is not possible without Auckland Council's cooperation. Auckland Council, through its 100 percent ownership of Ports of Auckland, is a cornerstone partner in any agreement to move.
21. With receipt of the final report, we note that the Working Group's work has concluded.

Our initial assessment of the Working Group's analysis and recommendations

22. The Working Group makes strategic arguments to support a port move from Auckland. The most important of these arguments is the potentially significant city-shaping and congestion-reduction benefits in Auckland, the land value gains both on the port site and beyond in Auckland and the regional economic benefits to Northland.
23. We note the Working Group's conclusion that Ports of Auckland is not viable as the upper North Island's key import port in the long term and that a transition to an alternative port arrangement will be necessary over the next 15 years.
24. The Working Group recommend that further detailed work is needed to support particular areas of its proposal. Before we take decisions on the Working Group's recommendations, we would like extend the analysis done by the Working Group. This includes further exploring the recommended Northport scenario, involving the shift of the Ports of Auckland. Other scenarios looked at by the Working Group will also be considered.
25. The key issue for Cabinet to consider when it takes decisions on the Working Group's recommendations is whether the potential gain to New Zealand from the port move is sufficient to justify the significant Crown seed investment and possible need for regulatory and legislative intervention.
26. We recommend officials further explore some particular areas within the Working Group's economic analysis to inform the next steps in the upper North Island supply chain strategy. This would involve further analysis of:
 - **The effects on the supply chain** to confirm the nationwide impacts of freight relocation
 - **Market testing of the potential rail mode share**, which the Working Group assumed to be 70 percent with a full move scenario
 - **The impact on the timing and sequencing of road projects**. Traffic modelling and congestion impacts should be explored
 - **The potential land value uplift** resulting from the move across wider Auckland and in Northland.
27. It is important to recognise that government has a limited share of the decision rights in relation to any relocation of ports. We recommend we work with the seven cornerstone partners to build consensus on a upper North Island supply chain strategy.

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28. Cabinet may wish to consider the consequences of using a legislative or regulatory approach. These are significant levers to use given the implications for private property rights.

The Working Group note that significant Crown investment is likely required to enable their recommended option

29. To enable the Working Group's recommendation, significant central government investment would be needed in Northland's road and rail infrastructure. The Working Group's second report estimated the total capital cost of the Northport scenario to be \$10.3 billion. This investment is expected to be largely commercially driven. Based on the Working Group's reports, indicative infrastructure costs to the Crown are estimated to be around \$3-4 billion covering the North Auckland Line and Marsden Point Link Avondale to Southdown rail link and accelerated road costs.
30. Other costs which are not formerly recognised in the Working Group's reports may fall to Government. For example, an inland freight hub in West Auckland, and the costs of negotiating and realising a potential commercial arrangement.
31. The work programme will need to consider the likely capital investment requirements for the scenarios considered. These will be assessed relative to the requirements of maintaining the status quo and alternative scenarios.

Cabinet decisions on the Working Group's recommended option, including further work

32. The Working Group notes that its final report should be seen as the first step towards any change in the upper North Island supply chain and that further, more detailed work will be required given the complexity of the issues.
33. We recommend that officials develop a work programme consisting of [REDACTED] the work streams, in three broad areas, to develop further the Working Group's recommended option and to provide the information necessary for Cabinet to make a decision in May 2020.

34. The current owners of the upper North Island ports are cornerstone partners in this exercise, whose agreement and cooperation in any transition will be a requirement of making progress. The seven partners are: the Auckland Council, Ports of Auckland, Bay of Plenty Regional Council, Port of Tauranga, Northland Regional Council, Northport and Marsden Maritime Holdings Ltd. [REDACTED]
35. Engagement with these parties has been limited to date, and we anticipate that aligning the partners will take some time to achieve. [REDACTED]

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39. Where possible, the seven cornerstone partners should be advised of the scope and encouraged to assist the delivery of the work streams as their support and input will be important to ensure a May 2020 report-back date is possible.

Overview of the work streams to take forward the Working Group's recommendation

40. The work streams are:

40.1. Technical and public policy work streams

Logistics and supply chain analysis, to further refine the supply chain investment costs and efficiency, levels of service for the upper North Island and rest of New Zealand, user acceptance and demand for rail versus road freight. This workstream will consider the Working Group's recommended Northport option and other scenarios looked at by the Working Group.

Transport analysis, focussed on congestion, safety, greenhouse gas emissions and other environmental impacts of a Port move, and the impact of rail and road investments for the upper North Island, and in the case of the North Port option, the feasibility of a West Auckland freight hub. This work stream would include the timing and sequencing of rail and road projects and the potential impacts of deferring the demand for major transport infrastructure.

Land use planning and wider economic benefit analysis, including sensitivity testing of the Working Group's analysis of land value gains within the port site and extension of the Working Group's analysis to explore the city-shaping and land value gains beyond the port site. The wider economic benefit analysis will also sensitivity test and confirm the benefits to agreed options, including Northland.

Legislative and regulatory considerations, for possible deal scenarios. This work stream will also consider any consenting and Resource Management Act issues associated with a port move.

40.2. Commercial work streams

Funding and finance, for the project as a whole and better understanding of the Crown cost commitment, including the cost of rail and road investments in the upper North Island related to the scenarios explored, which also needs to be considered in the public policy work stream.

Governance and commercial arrangements, including assessment of possible deal scenarios critical to all partners. [REDACTED]

40.3. *Communications* [REDACTED] *Withheld to maintain the constitutional conventions which protect the confidentiality of advice tendered by Ministers and Officials.*

Communications to support the above work streams [REDACTED] alongside developing a public communications strategy.

41. It is expected the Infrastructure Commission will be available to advise Ministers and officials on an as required and as available basis.

Funding of the Working Programme

42. The external consultancy costs, for the work programme to May 2020 are expected to be significant. A provision of \$2 million in 2019/20 for the work programme is proposed to ensure the work can begin immediately.

43. There are three funding options – baseline funding from the Ministry of Transport, a between-Budget contingency (BBC) bid, or a mix of both. We recommend that the source of funding and the budget, up to a cap of \$2 million, be delegated to the Minister of Finance and the Minister of Transport for decision.

44. A report is being provided to joint Ministers before the end of 2019, covering:

- The scope, leadership and cost required to support the work streams
- Cost sharing between the MOT and a BBC
- Governance and structural arrangements to enable an efficient process
- Timelines for key deliverables, including public communications
- The plan for engagement with cornerstone partners
- The role of the Infrastructure Commission

Consultation

45. The Treasury were consulted on this paper. We recognise that KiwiRail, the New Zealand Transport Agency and the Infrastructure Commission need to be engaged in the establishment and operation of the work streams.

Financial Implications

46. We are seeking a provision of up to \$2 million of funding, either from the MOT baseline or a BBC or a mix of both, to undertake further work on the

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recommendations of the Working Group. As noted above, we recommend that this decision is delegated to the Minister of Finance and the Minister of Transport.

47. Officials will provide advice to Cabinet in May 2020 on the costs to the Crown associated with its decisions on the Working Group's recommendations.

Released by the Associate Minister of Transport

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Legislative Implications

48. There are no imminent legislative implications associated with this paper, however one of the work streams proposed in this paper is intended to address the regulatory and legislative issues and risks that might emerge depending upon Cabinet's future decisions on the Working Groups report.

Impact Analysis

49. Impact Analysis requirements do not apply to the proposals in this paper.

Human Rights, Gender Implications and Disability Perspective

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

Publicity

51. The Working Group has provided us with its final report. We recommend its report is publicly released following consideration by Cabinet. We also recommend in early engagement with cornerstone partners begin in parallel.

Proactive Release

52. We recommend that this paper is released alongside the public release of the Working Group's final report.

Recommendations

We recommend that the Committee:

1. **note** the Working Group's final report on the Upper North Island Supply Chain Strategy is attached to this paper;
2. **note** that the Ports of Auckland is not viable as the upper North Island's key import port in the long term;
3. **note** that the Working Group recommends the transition to an alternative port arrangement be completed no later than 2034, fifteen years hence, with a stretch target of 2029;
4. **agree** to release the Upper North Island Supply Chain Strategy Working Group's final report;
5. **agree** to a work programme to inform future decisions on the upper North Island supply chain strategy, with Ministers reporting back to Cabinet in May 2020, comprising:
 - 52.1. Logistics and supply chain analysis
 - 52.2. Transport analysis

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52.3. Land use planning and wider economic analysis

52.4. Legislative and regulatory considerations

52.5. Funding and finance

52.6. Governance and commercial considerations

52.7. Stakeholder engagement and communications;

6. **note** that, as part of the work programme, officials will assess the Working Group's recommended Northport scenario and other scenarios looked at by the Working Group;
7. **note** that the Minister of Finance, the Minister of Transport and the Minister of Regional Economic Development will continue to be the lead Ministers responsible for the work programme to May 2020;
8. **agree** that Ministers initiate engagement with cornerstone partners, comprising, Auckland Council, Ports of Auckland, Bay of Plenty Regional Council, Port of Tauranga, Northland Regional Council, Northport Ltd and Marsden Maritime Holdings Ltd; **Withheld to maintain the constitutional conventions which protect the confidentiality of advice tendered by Ministers and Officials.**

10. **note** that funding for this work may be funded from MOT baselines, a Between-Budget Contingency or a combination of both;
11. **authorise** the Minister of Finance and Minister of Transport to make joint decisions on the immediate funding for the work programme (including whether that funding should be met from the Ministry of Transport baseline, Between-Budget Contingency or a combination of both and establishing and amending the necessary appropriations) up to a maximum of \$2 million in the 2019/20 financial year; and
12. **note** that a companion Cabinet paper recommends a second phase of Provincial Growth Fund investment in the Northland Auckland Line (\$69.7 million) and the Marsden Point Link land acquisition (\$40 million), totalling \$109.7 million.

Authorised for lodgement

Hon Phil Twyford

Hon Shane Jones

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Minister of Transport

Associate Minister of Transport

Minister of Regional Economic Development

Minister of Infrastructure

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