

Advice on the Working Group's second interim report on Upper North Island Supply Chain Strategy

Reason for this briefing	To provide further advice on the Working Group's second interim report, as requested following the joint Ministers' meeting on 9 September 2019.
Action required	Provide a copy of this advice to the Upper North Island Supply Chain Strategy Working Group for its consideration.
Deadline	Friday, 11 October 2019.
Reason for deadline	To allow the Working Group enough time to consider our advice as the final report is imminent.

Contact for telephone discussion (if required)

Name	Position	Telephone	First contact
Erin Wynne	Director, Rail Transformation – Ministry of Transport	██████████	✓ (MoT)
David Taylor	Manager, National Infrastructure Unit – The Treasury	██████████	
██████████	Senior Analyst, National Infrastructure Unit – The Treasury	██████████	✓ (TSY)

MINISTER'S COMMENTS: Withheld to protect the privacy of Natural Persons.

Date:	3 October 2019	Briefing number:	OC190930 (Ministry of Transport) T2019/3021 (The Treasury)
Attention:	Hon Grant Robertson (Minister of Finance) Hon Phil Twyford (Minister of Transport) Hon Shane Jones (Associate Minister of Transport)	Security level:	In-confidence

Ministers' Office actions

- Noted*
 Seen
 Approved
- Needs change*
 Referred to
- Withdrawn*
 Not seen by Minister
 Overtaken by events

Purpose

1. On 9 September 2019, Ministers met with the Chair of the Working Group for the Upper North Island Supply Chain Strategy (UNISCS) to discuss the Working Group's second interim report. The report includes a preferred option of a full move of Ports of Auckland (POAL) trade to Northport.
2. The Ministry of Transport and the Treasury noted in our advice (OC190814, T2019/2523 refers) that the analysis underpinning the second interim report was not sufficiently clear for us to reach a view on the strength of the evidence base for this preferred scenario.
3. Following this meeting, you requested further advice from the Ministry of Transport and Treasury on this report and its accompanying economic analysis by EY.

Background

4. On 16 and 20 September 2019, officials met with the consultants who undertook the economic analysis to discuss this in more detail. These sessions provided us with a better understanding of the analysis and infrastructure costs underpinning the Working Group's preferred scenario of port relocation to Northport.
5. We note that EY's analysis was intended to provide a high-level overview of the various port move scenarios. Our comments should be read in light of these constraints.

The Working Group's preferred scenario – full relocation to Northport – hinges on two key assumptions

A. **\$4.3 billion of road infrastructure costs are assumed to be saved under the Northport scenario, compared with the base case**

The base case includes total road investment of \$6.5 billion including a range of safety improvements, ATAP new projects and future priorities such as Papakura to Drury motorway widening, Mill Road and East West Link, and state highway upgrades in the Bay of Plenty.

The full move to Northport scenario assumes that only \$2.2 billion of road investment would be needed (this comprises various upgrades on SH1 north of Auckland and \$1 billion of SH16/18 upgrades noted as part of ATAP future priorities). \$4.3 billion in savings is assumed under this scenario compared with the base case.

However, the consultants who provided the infrastructure costs, Advisian, have advised that the base case road infrastructure costs will be required regardless of the future of POAL. It is therefore not reasonable to assume there are savings of \$4.3 billion on road infrastructure with a full relocation to Northport.

If we amend the road infrastructure costs in the model to reflect this (which EY have provided us), this significantly affects the benefit cost ratio (BCR), lowering it from 1.7 to 1.0.

B. **The assumed 70 percent rail mode share for the Northport scenario**

Based on current rail mode share levels¹, this is a very optimistic assumption, and one that does not reflect current freight operator behaviour. If a mode share consistent with current mode share out of the Port of Tauranga (45.3%) was instead

¹ National Freight Demand Study 2014 notes that rails tonne-km mode share is 16% nationally.

assumed for a full move to Northport, our results show that the BCR again decreases from 1.7 to 1.0 as road user benefits decrease.

There is no explanation for this assumption in the report, and we expect to see further detail on how an increased rail freight mode share is supported in the Working Group's final report.

6. Any change in these two assumptions will have a significant effect for the Northport scenario's BCR. Combined, if the rail mode share is brought in line with current levels for the Port of Tauranga and the reduced road investment is corrected for, this reduces the Northport scenario BCR from 1.7 to 0.3.

Other areas for you to consider going forward

7. There are a number of other areas of which you should be mindful as you receive the final report.

Scenarios outside of Northport may have been overlooked and prematurely rejected

8. We question whether a move to the Port of Tauranga was adequately analysed. The relocation to Port of Tauranga scenario has very high rail infrastructure costs due to constructing another Kaimai tunnel. However, this does not seem to result in increased rail mode share, which remains constant at 43.5 percent despite investments in capacity.
9. We also query the claim in the second interim report that one port in the Upper North Island is not in the best interests of New Zealand in terms of resilience of the supply chain and ensuring a competitive market. The Working Group provide no further discussion on this.
10. There is also no analysis of a potential Manukau Harbour option. Given its strategic location, we consider it is necessary for the Working Group to explain why this is not a viable option.

Other assumptions and costs that require further analysis

11. We also note that the wider economic benefits from property value uplift of land surrounding POAL have not been included. This would have a positive effect on any POAL relocation scenario.
12. It is not clear how the rail freight costs used in the economic analysis were derived, and these seem surprisingly low. We would like to see a clearer explanation of these costs in the final Working Group report.
13. The attribution in the EY report of \$650 million, out of a total of \$1.2 billion for the North Auckland Line costs, to the full move to Northport scenario is likely to be a matter of ongoing debate. The business case for Northland rail is significantly based on a move of POAL trade; specifically, it does not make sense to build a spur line to Marsden Point without a full relocation to Northport.

The final Working Group report will need to provide more robust analysis to make the case for a full move to Northport

14. Based on the evidence provided in the second report, the case for a full move has not been made.
15. In order to ensure that officials are able to sufficiently support Ministers to take decisions on the future of the Upper North Island Supply Chain, the Working Group's final report needs to have a clearer and more robust evidence base for any recommendations.

Recommendations

16. The recommendations are that you:

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| (a) | note that the case for a full move to Northport has not been made on the evidence provided | Yes/No |
| (b) | refer our advice to the Upper North Island Supply Chain Strategy Working Group to consider as it develops the final report. | Yes/No |

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MINISTER'S SIGNATURE:

DATE: