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The Ministry of Transport

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To whom it may concern

KiwiRail submission on the Freight and Supply Chain Issues Paper

KiwiRail welcomes the opportunity to submit feedback on the Ministry of Transport's *Te rautaki ueā me te rautaki whakawhiwhinga o Aotearoa | New Zealand Freight & Supply Chain Issues Paper*. We have prepared responses to most questions of relevance to the rail industry and the supply chain but have not responded where these questions fall outside our industry expertise.

KiwiRail acknowledges the fundamental role that the freight and supply chain system have on New Zealanders every day, and the crucial role it will have in the transport sector's transformation to adapting to a low carbon future, technological advances, market changes and a changing geopolitical landscape.

Rail has a critical contribution to make, with at least 12% of the freight task shifted by rail. Every tonne of freight moved by rail emits 70% fewer emissions than if that tonne was moved by road freight. Without us, undue pressure would fall to the system and transport emissions would be higher. The New Zealand Rail Plan has enabled a resilient and reliable future for rail, and the benefits it offers to our supply chain. The Rail Network Investment Programme sets out the investments required to achieve this and established a target to lift the freight task from 12% in 2020 to 14% in 2030.

If you have any questions or wish to discuss this submission, the primary contact for this submission is Arthur Ung, Senior Policy Analyst at Arthur.ung@kiwirail.co.nz

We are happy to discuss our submission further with your team. As a key member of the transport, freight, and supply chain sectors, we look forward to continuing engagement in this work.

Freight & Supply Chain Issues Paper

Part 1: Understanding New Zealand's freight and supply chain system

Question 1: Do you agree with the outlined description of the freight and supply chain system?

Broadly, yes. The importance of the freight sector to the economy is well made and the key modes are described.

However, there are some basic descriptions which should be corrected and/or tightened through the Strategy:

- a. **The importance of rules and regulations:** The description of the freight sector should refer to the rules and regulations for the transportations of food, agricultural products, and dangerous goods. These impact the nature of freight and supply chain services and need to be mentioned.
- b. **The need for more data:** There are several general comments made about a lack of data but no suggestions about how to overcome it. We believe there is a lot of data available in the transport sector. There is a significant amount of data regarding freight movements, in particular international movements through our sea and airports. Unfortunately, much of the potentially useful detail collected is not accessible due to privacy concerns, such as what is containerised, and the inland origin of exports (or destination of imports). However, we believe more data could be made available whilst still protecting privacy, with some legislative change. We agree with the view taken that access to more data will assist in better informed transport planning for investment.
- c. **The significance of safety:** WorkSafe conducted studies on managing vehicle-related risks arising from supply chain pressures and risk factors in the road freight transport industry, and the resultant risks need to be addressed in any Strategy for the supply chain.
- d. **How freight is measured:** The high-level summary on page 11 should describe the relative freight tasks of each sector in net-tonne kilometres, not volume. Net-tonne kilometres provide the sum of tonnes carried multiplied by the distance travelled. Measuring volume alone does not provide a useful portrayal of the distances travelled, which is the entire point of freighting volume. Net-tonne kilometres provides a broader picture of the freight task across New Zealand and aligns to key language used by the Government when describing mode share. For instance, the Minister of Transport requested KiwiRail note its objective to increase the mode share of rail freight from 12% in 2020 to 14% in 2030.
- e. **How labour is counted:** Also on page 11, the trucking sector is described as employing "around 30,000 staff across about 4,700 firms," while the rail sector is described as having "around 4,000 rail employees." These figures are not relative as the 4,000 rail employees figure counts the full contingent of KiwiRail including track workers, Scenic tourism operations and the Interislander. The information on the trucking sector does not count the thousands of road workers required to maintain the road network. KiwiRail's rail freight operations employ around 1,800 people in rail operations (e.g., locomotive engineers, container terminal and yard staff, and rolling stock maintenance crews). Therefore, we suggest this figure be used instead.

As minor points, we also note:

- The rail and road colours are difficult to distinguish in the diagram on page 13. There are also inaccurate representations in the diagram. The thick line representing rail movements from the West Coast should run from Westport, not Greymouth. There is no coastal movement of cement from Westport to the North Island due to the closure of the Westport plant, meaning no coastal movement originates from Westport. The line from New Plymouth to Marsden Point, and the size of the flows represented by the lines down the eastern coast, will be impacted by the cessation of coastal oil tanker movements.
- The statement on page 11 that “New Zealand has 94,000km of roads” should specify the portion attributed to the State Highway network.

Question 2: Do you have any views on the outlined role of Government in the freight and supply chain system?

We generally agree with the views outlined. That is, “the government has a role to play in ensuring that the system functions well and serves the interests of New Zealand and its people.”

The key roles the Government plays is through its:

- a. **Regulatory function** (ensuring competitive settings and ensuring safety requirements are established and met), and through its roles outlined in points 2 to 4 below.
- b. **Transport investor role** to ensure the standard of the transport assets are resilient and reliable.
- c. **International connections role** through strong trading conditions and trade route management in the interests of New Zealand importers and exporters.
- d. **Long-term planning** which establishes key strategies from which the market can respond to and invest in, such as clarifying the strategy for optimal port arrangements.

Our view is that “facilitating collaboration and coordination across the sector” is, ultimately, an output of the above functions. However, we agree that this function is of value (and has been of value) in coordinating responses through the Covid-19 pandemic (e.g., the International Airfreight Capacity Scheme to maintain access to key medicines and PPE gear) and natural disasters (e.g., prompt establishment of rebuild funding for the State Highway and Main North Line impacted by the Kaikōura earthquake).

To this end, effective and integrated transport planning in the long-term interest of New Zealand and New Zealanders is essential. The recent reform to integrate the maintenance and improvement of the rail network into the Land Transport Management system is a welcome shift in this direction.

However, we also believe that there are three key areas which were not addressed in the consultation document, and these are areas where the Government can intervene in the freight and supply system.

- a. The Government must ensure compliance with health and safety obligations on all freight operators. KiwiRail takes these obligations seriously and holds itself to high

standards. The Government may need to increase its oversight to ensure health and safety compliance is met across all freight operators.

- b. There has been a consolidation (through mergers and acquisition) of ocean carriers which has created less choice and increased prices. This was worsened through Covid and its impact on global supply chains.
- c. Port, freight, and coastal services are essential to the New Zealand economy, in particular the North Island supply chain (which has four of the five largest ports in New Zealand). We look forward to the Ministry of Transport developing a clear upper North Island Supply Chain strategy from which the market can respond. This will benefit long-term infrastructure planning.

Finally, the issues paper could have benefited from providing case studies of policies taken in other countries to improve their supply chain resilience. For example, Australia has the Supply Chain Resilience Initiative (SCRI). This is one element of a broader suite of government actions underway to build resilience in Australia's supply chains. The SCRI aims to strengthen Australia's ability to access critical necessities and position itself to respond to future supply chain disruptions. The SCRI includes two components: first, working with industry to build an understanding of supply chains for critical products, including identifying options to address vulnerabilities, secondly making grant funding available for businesses to establish or scale a capability that addresses an identified supply chain vulnerability.

There is an opportunity for the Freight Decarbonisation funding to follow a similar path. For instance, New Zealand may require the production of biomass as an alternative to fossil fuels. Consideration should be given to the optimal location for the production, processing and use of biomass and the low-emissions options to freight it. Planning its production and processing to take advantage of the rail corridor may be of significant benefit to long-term emissions reduction and a net-zero carbon future.

Part 2: Strategic Context for Change

Question 3: Do you agree with the outlined strategic context and key opportunities and challenges? If not, please explain why.

We partially agree.

The section implies that rail does not compete well for non-bulk goods over short distances, however our average haulage distance of roughly 220 kilometres demonstrates that rail freight competes relatively well given this is considered short in an international context.

Additionally, the assumption that road and rail compete for similar freight is not wholly correct.

The current coastal trade is not competed for by KiwiRail. Coastal ultimately caters for the least time-sensitive volumes. KiwiRail no longer provides a five-day service at the present moment but is open to considering future opportunities from customers (and therefore competes predominantly with the road freight sector through next-best alternative pricing).

The Emissions Reduction Plan establishes a target to reduce freight emissions by 35% by 2035. This will require decarbonisation of all freight fleets but importantly will also require modal shift from road to both rail and coastal. The document describes the benefits of increased use of coastal and rail shipping but could reference the fact that KiwiRail is

pursuing a fleet decarbonisation business case to inform long-term fleet and infrastructure planning. This activity is funded by the Government.

It is also important to recognise the need for long term planning and investment to ensure that resilient and reliable assets are in place, and that there is capacity to respond to increases in demand and to facilitate mode shift. The NZ Rail Plan and new RNIP funding model are helpful in this regard.

Question 4: Are there any trends missing that we should consider? If so, please explain what they are.

There has been a global trend of a consolidation of the global shipping carriers (through mergers and acquisitions). This means a greater concentration of market power is held by a smaller number of shipping carriers, and has ramifications for the strategic and operational level for the transport sector. The Government has a role to observe whether the market is responding to these changes appropriately.

Businesses are exploring new economic models to conduct business. For example, supermarkets are now doing deliveries too (these have experienced a significant gain in popularity especially following Covid and the need to isolate) and a major cargo owner, Lidl, has established its own shipping services. These new business ventures demonstrate market responses to changes in demand (in-home deliveries and international supply chain disruption).

The shift from just-in-time to just-in-case is well described. One of the outcomes of this is that we may see more regionally based in-land freight centres, Auckland/Waikato and Christchurch to support these supply chains. This potentially means that this may further change the import outflows into the country. We are starting to see more large-scale distribution centres in Auckland and Waikato.

These changes ultimately lead to the question of coastal and in-land port consolidation and effective strategies for the production, processing, and supply of commodities. The freight supply chain should ultimately add highest-possible value to create economies of scale, and this requires active and systemic infrastructure and economic planning.

Finally, the importance of health and safety must be identified as a strategic objective for change. KiwiRail takes the health and safety of its rail operations very seriously. Improving road safety, for the benefit of its freight workers and all New Zealanders, through effective speed limits, and other safety mechanisms is important. So too is effective regulatory oversight to ensure all sectors are meeting health and safety requirements.

Question 5: Which of the opportunities and challenges do you believe will be most important in shaping the future of the freight and supply chain system in New Zealand and why?

One of the most critical opportunities for the future of the freight and supply chain system is ensuring long-term infrastructure planning is funded and establishing effective economic development strategies to support investment in the production, processing and freighting of commodities for the future.

In addition, we consider that the Government could signal its intention to monitor market capacity and pricing in international shipping lines as normal trading patterns return. It is important that pricing is not held high as capacity grows but is instead based on fair market pricing. This is important because New Zealand is a small market and is vulnerable to price gouging.

The impact of new employment regulations could be better described as an opportunity and challenge through the Strategy. For instance, how might key changes like the Fair Pay Agreements Bill and the two-year impact of immigration restrictions impact on the labour market dynamic? We would also like to pose the question: are there specific steps required to help meet skills shortages across the freight sector?

The growth of our urban centres through densification and expansion (in some cases) is necessary to support a growing population. This has implications for the supply chain, with higher congestion in urban centres and de-industrialisation to accommodate a growth in housing. This can lead to an investment lag if key supply chain infrastructure is constrained in its ability to grow.

KiwiRail agrees with a view presented by the Future Ports Forum that the importance of the Cook Strait connection needs to be identified as a strategic opportunity. The Cook Strait connection joins State Highway One and the Main Trunk Railway between the North and South Islands. KiwiRail and Bluebridge move approximately \$20 billion worth of cargo and more than a million people across the Cook Strait annually, providing a vital connection that is essential to boosting economic growth. The current investment to renew the Interislander fleet and terminals is an important step in improving resilience, but the Future Ports Forum's proposed multi-user ferry precinct should be identified as a strategic opportunity to ensure this vital connection continues to grow.

Part 3: Current Vulnerabilities of the freight and supply chain system

Question 6: Do you agree with the outlined vulnerabilities of the current system? If not, please explain why.

The shift to a just-in-case model is necessary for some commodities to provide a buffer to any supply chain disruption. The impact of Covid and international supply chain constraints has demonstrated the significant risks associated with a just-in-time model when companies and households are unable to progress their activities due to a congested supply chain.

It is therefore essential that New Zealand establishes higher stock reserves for key commodities to lessen our exposure to international supply constraints. We have seen positive indications of this approach with the proposed increase in fuel reserves, but similar approaches should be taken for other commodities. The Government can influence this through establishing minimum reserve volumes for commodities and supporting businesses that build and maintain storage facilities. These facilities could be built around key inland ports and would play naturally to rail freight given its ability to move large consignments. This policy would support supply chain resilience and contribute to emissions reduction through an increased modal share for rail freight.

New Zealand is exposed in multiple regards to the growth in the physical size of international freight ships. Firstly, fewer ports will be able to receive these bigger ships, and the ports that can, must have the portside infrastructure to service these ships efficiently. The ports that cannot handle the bigger ships, will receive fewer port calls, but if hubbing is provided by coastal shipping, they may continue to enjoy a similar level of service. However, if land transport performs a greater role to aggregate exports at larger ports (or distribute imports), then inland ports may become the substitute for some of the smaller coastal ports. Irrespective of the form of hubbing, high customer expectations will continue to put pressure on the import and export supply chains.

The rail freight system is being invested in with new rolling stock arriving. However, new locomotives and wagons will take time to be procured and come into service. In the meantime, the risk of an aged fleet remains a vulnerability in the network. Beyond this, KiwiRail will be in a stronger position to grow its capacity and, through this, to support projected growth in the freight market.

Question 7: Is there any key information missing in understanding the vulnerabilities of the current system?

Refer to the response for Question 6 above.

We would like to query a figure used in a statement on page 39 with regards to poor labour productivity in transport. It states, that “according to Stats New Zealand data, labour productivity in the transport sector (combining transport, postal and warehousing), has been decreasing over the last five years, and capital productivity in the sector has been decreasing since 2002”. We note that only one statistic is used to support this broad statement. We would like to highlight that without further information, there is the potential that one of the components of this sector could have dragged the overall productivity statistic down.

Part 4: Our Proposal for developing a freight and supply chain strategy

Question 8: Do you agree with the proposed outcomes? If not, please explain why.

With respect to the third outcome “Productivity and Innovation”, we believe that improvements in productivity and innovation in the transport sector will need to be underpinned by long-term infrastructure planning and funding. The recent reforms to establish the Rail Network Investment Programme are a critical step to achieving this. We welcome the point that “New Zealand needs to take a national rather than regional approach to ports” and suggest that this needs to be a core objective for the National Freight and Supply Chain Strategy.

With respect to the fourth outcome “Equity and safety”, we believe this consultation paper does not say enough on health and safety concerns, especially considering the recent deaths and serious injuries in the sector. There is a need to look at the integration of supply chain issues with safety and the interaction between productivity and safety measures. This goes to the heart of the supply chain safety issues, especially with backlogs caused by Covid.

We also look forward to the benefits from the Generational Investment Approach.

Question 9: Are there more outcomes the strategy should focus on? If so, please explain what they are.

The National Freight and Supply Chain Strategy should provide clarification on the Government preferences for where coastal and inland shipping should be focussed because this will allow market to align their investment. This Strategy is ultimately a key component of the Government’s infrastructure strategy.

We also recommend focussing on the transition from coal to biomass. This transition will support emissions reduction, but greater biomass volumes are required to generate the

same energy output as coal. The Supply Chain Strategy could consider options to accelerate the supply of biomass in New Zealand and to consider the most efficient means of freighting biomass from supplier to likely users, such as Fonterra (which rail already supplies) and schools and hospitals. This should consider the optimal locations for the production and processing of biomass. The recently announced \$20 million freight decarbonisation fund could support this outcome.

Question 10: Do you agree with the potential areas of focus for the strategy? If not, please explain why.

Refer to the response for Question 9 above.

Question 11: Which of these areas of focus would be most important to prioritise?

We agree that all these areas of focus are important and that they all interact. The interactions should be managed rather than selecting one as the key focus. The transport sector should be viewed as an integrated and interconnected system.

Question 12: What would successful stakeholder engagement on the development of the strategy look like from your perspective?

These engagements should prioritise the most pressing and significant issues facing the transport sector.

Real engagement will require a genuine interaction and communication between the Ministry and the relevant stakeholders. Such as responding to their specific queries with appropriate answers and best efforts to find solutions to those problems when not immediately available. As well as giving a reasonable amount of time for stakeholders to comprehend and respond to the proposals.

Overall, we believe that successful stakeholder engagement should resonate with the entire sector.

Question 13: How could we best engage with Māori on the strategy?

Refer to the response for Question 12 above.

With national strategies such as this, meaningful engagement with Māori could be challenging given the geographical diversity and respective interests. It is suggested that targeting national bodies (such as the Iwi Chairs Forum) could be a useful initial reference group.