Road Transport Forum New Zealand submission in response to KiwiRail becoming an approved public organisation under Sec 23 of the Land Transport Management Act 2003

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INTRODUCTION

Road Transport Forum New Zealand (RTF) is the peak body and authoritative voice of New Zealand's road freight transport industry, which employs 22,600 people, has a gross annual turnover of $6 billion and transports about 70% of New Zealand's land-based freight on a tonne/kilometre basis.

RTF is made up of several trucking associations for which the Forum provides unified national representation. The Forum members include Road Transport Association New Zealand, National Road Carriers, and New Zealand Trucking Association. The affiliated membership of the Forum is some 3,000 individual road transport companies which operate 16-18,000 trucks involved in road freight transport as well as companies that provide services allied to road freight transport.

The following submission provides an insight into the importance of the road freight transport market and illustrates why modal cross-subsidisation to fund rail freight services will lead to commercial unfairness and distortions within the freight transport market.

HISTORICAL BACKGROUND TO ROADING INVESTMENT

The geographic flexibility of road freight is impossible to match by any other freight transport mode. 93,000 kilometres of roads mean that the road freight network is country-wide and the service is point-to-point for pick-ups and delivery. In comparison, the national rail network currently managed by KiwiRail only encompasses around 4,000 kilometres of track and offers a very limited point-to-point transport service. Any customer freight service capability of Kiwi Rail is almost entirely dependent on road freight transport support.

The inherent advantage of road transport is its responsiveness to the 'just in time' requirements of customers. Road transport is not constrained by railway or shipping timetables and is able to quickly and easily respond to unforeseen changes in the freight task, e.g. volume, type, origin and destination, as well as specialist and unusual consignments. Time consuming and costly transhipping between road and rail is also minimised making the transportation of goods quicker and cheaper.

The 2014 Freight Demand Study predicted that as New Zealand's economy grows there will be a 58 percent increase in overall freight volumes, from 236 million tonnes to 373 million tonnes, by 2042. It is expected that the majority of this increase will continue to be transported by road freight services. It is also estimated that only a 3-7 percent share of the current road freight task is currently contestable by rail.[1]

Europe, which has extensive rail systems, many of which are heavily subsidised and incentivised by governments, as well as large inland waterways, has a modal split that is actually weighted more towards road freight than ours is. Road transport is responsible for around 70 percent of New Zealand's freight task on a tonne-kilometres basis, while in Europe the figure is around 75 percent, and in some countries, such as the UK, France and Italy, the proportion is over 85 percent.[2]

Where practicable and economic the road freight sector works closely with KiwiRail to maximise productivity efficiencies where they are available and it is hoped that this cooperation can be further expanded especially around ports and inland freight hubs.

In national emergency and disaster situations economic relief and emergency assistance including network and access rehabilitation is almost inevitably provided by road transport, which simply reflects the inherent flexibility of this service. When State Highway 1 and the Main Trunk Rail Line through Kaikoura were rendered inoperable following the November 2016 earthquake only road freight provided the flexibility and operational agility to carry on the freight task.

The reality is that road freight is the only means that provides universal and unhindered reach to production and processing sites as well as to New Zealand's hinterland where the country's wealth and export potential is primarily generated. Equally, product purchasing and consumption takes place where rail services are entirely absent and deliveries of products to these facilities is only possible by road.

These aspects of economic activity are why the Land Transport Management Act (the Act) and related Government Policy Statements (GPS) have historically been predicated on investment and management of the national roading infrastructure by way of the National Land Transport Fund (NLTF). Recalibrating GPS expenditure toward rail services will not significantly influence freight demands and will create an environment of modal cross-subsidisation that will be to the detriment of freight operators, producers, exporters, consumers and place a drag on the entire economy. Such cross-

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[1] *The Contestability of New Zealand's Road Freight Task by Rail* - Mackie, Baas and Manz (2006)

[2] Modal Split of Inland Freight Transport, 2015 (% of total tkm), source: Eurostat, http://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Modal_Split_of_inland_freight_transport,_2015_(%25_of_total_tkm).png

subsidisation also makes a mockery of the Government's stated policy intention of 'mode neutrality'

NATIONAL LAND TRANSPORT FUND (NLTF)

The Government proposes amending the governing provisions of the NLTF beyond the present scope of passenger rail service subsidies by introducing an amendment to the Act under section 23 which would result in an increased dependency of rail on public funding across the board.

The NLTF is currently a user-pays, ring-fenced fund for construction, maintenance and improvement of the roading network with some support funding for passenger services including rail passenger services which are both administered through regional councils. The NLTF is funded by road users through petrol excise and road user charges and has been hypothecated since 2008.

The reason why motorists and transport operators accept the high level of fuel excise and road user charges (RUC)[3] is due to the direct relationship the fund has to the roading network.

KIWIRAIL AS AN APPROVED PUBLIC ORGANISATION

The proposed amendment would categorise KiwiRail as an approved public organisation. This would allow KiwiRail, which operates as a commercial transport service provider to access the NLTF for the purpose of operating in the commercial market against alternative transport providers. Those transport providers would therefore end up subsidising their competition through the NLTF funding process. That is a perverse and unfair outcome and is an anathema to road freight operators who operate in a highly competitive commercial environment and compliantly pay road user charges into the NLTF.

The concept of KiwiRail as an approved public organisation is totally opposed by RTF as there is no freight exclusion or even attempt to ring-fence the proposition to passenger services. The letter from Minister Twyford dated 5 April highlights a benefit aspect (reduced congestion) but stays silent or makes only an oblique reference to a more global expenditure from the NLTF to support KiwiRail services.

Citing KiwiRail as an approved public organisation and a direct recipient of NLTF funds means that how it spends the money is not limited to passenger

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[3] RUC's are approximately 15% of the operating costs for a heavy vehicle operator

service support. In contrast the opening paragraphs of the Minister's letter state the government policy statement is to be amended to enable public funding to KiwiRail particularly where there are positive transport benefits. The effect of the latter provision could mean KiwiRail can access funding for anything and everything.

If the Government is determined to use the NLTF to fund rail services then a complementary requirement for KiwiRail to contribute to the NLTF through 'track user charges' or 'rail user charges' should be seriously considered as it will maintain the user-pays integrity of the Fund, bring some rigor to the operational management of the rail network and might help alleviate the likelihood of the Fund being drained over time.

CONCLUDING COMMENTS

RTF, the peak body and authoritative voice of the New Zealand road freight sector is strongly opposed to the Minister's signalled intention to add KiwiRail as an approved public organisation under Section 23 of the Land Transport Management Act.

If it is the Government's intention to use a higher proportion of the National Land Transport Fund for urban passenger rail then this proposed change is unnecessary. Rail based passenger transport is operated on behalf of Auckland Transport and Regional Councils who are already authorised recipients of National Land Transport Programme funds.

If, however, it is the Government's intention to fund KiwiRail capital works and rail freight operations from the NLTF derived from road user taxes then we have serious concerns. Such action would totally contradict the Government's stated policy of 'mode neutrality'. One mode would in essence be cross-subsidising another competing mode creating serious pricing and investment distortions to the detriment of New Zealand road transport businesses and the wider economy.

If KiwiRail is to receive funding from the NLTF then surely a 'rail user charge', comparable to the mass/distance road user charge should be introduced to maintain the integrity of the Fund and a semblance of neutrality.

Investment in any transport mode should be based on true comparative advantage with rigorous benefit/cost analyses (including the consideration of externalities). Transparent pricing is of critical importance to all transport modes and cross-subsidisation is the antithesis of transparent pricing.