

## Sapere's Report on the UNISCS Independent Working Group Findings and four options to progress work

<b>Reason for this briefing</b>	This briefing provides Ministers with the Ministry of Transport-commissioned Sapere report, informs Ministers of the perspective gained from stakeholder engagement, and presents four options, as well as the risks of those options, to progress this work.
<b>Action required</b>	Decide on which of the four options Ministers wish to progress.
<b>Deadline</b>	26 June 2020
<b>Reason for deadline</b>	To allow time for a Cabinet paper to be prepared (if required, dependent on the option chosen), in time for the last Cabinet Economic Development Committee (DEV) meeting on 5 August 2020 before the general election.

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### Contact for telephone discussion (if required)

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Nick Brown	Deputy Chief Executive, System Performance and Governance – Ministry of Transport	██████████
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### MINISTER'S COMMENTS:

<b>Date:</b>	11 June 2020	<b>Briefing number:</b>	OC200416 / 3659 19-20 / T2020/1884
<b>Attention:</b>	Hon Grant Robertson (Minister of Finance)  Hon Phil Twyford (Minister of Transport)  Hon Shane Jones (Minister for Regional Economic Development)  CC: Rt Hon Winston Peters Deputy Prime Minister	<b>Security level:</b>	In-confidence

## **Purpose**

1. The purpose of this briefing is to:
  - 1.1. provide a copy of the Ministry of Transport (Ministry) commissioned Sapere report and a brief summary of the findings from that report (**Appendix 1**)
  - 1.2. inform Ministers of the perspective gained from engagement with Cornerstone Partners, Treaty Partners, and stakeholders (**Appendices 2 & 3**)
  - 1.3. provide Ministers with four options and associated risks to progress this work.

## **Background**

2. On 9 December 2019, Cabinet noted the Upper North Island Supply Chain Strategy (UNISCS) Independent Working Group's (the Working Group) report, and noted that the Port of Auckland Limited (POAL) is not viable as the Upper North Island's key import port over the long term.
3. Cabinet agreed that officials would undertake a work programme to further assess options for relocating all of the Ports of Auckland's freight functions [CAB-19-MIN-0647 provides the Cabinet decisions and directive to officials]. In particular, Cabinet sought further advice on when and where POAL should move, limited to five options considered by the Working Group. Cabinet also agreed that the Infrastructure Commission provide advice on the work programme.
4. Officials engaged economic consultancy Sapere to provide analytical input into the policy process. Sapere in turn engaged a range of specialist sub-consultancies in the areas of transport and traffic forecasting and modelling, port planning, engineering, and supply chain analysis and costing. This analytical input phase of the project is now complete.
5. Officials have also engaged with Cornerstone Partners (the three Upper North Island ports and their owners), Treaty Partners, and a range of other stakeholders.

## **Working Group conclusions**

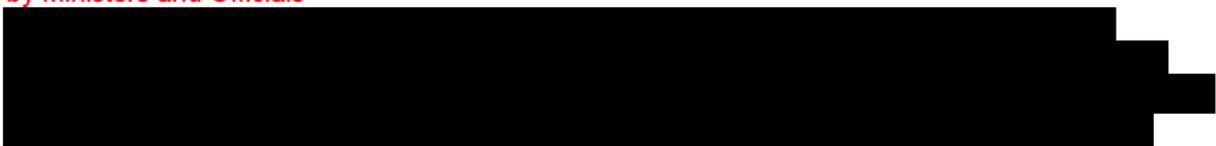
6. The Working Group recommended an urgent decision for a full move of Ports of Auckland's freight business to Northport within 10 to 15 years, driven primarily by:
  - 6.1. loss of social licence to operate and expand, and intolerable congestion beyond the port's gates
  - 6.2. the opportunity for harbour-side redevelopment in Auckland and regional economic development in Northland.

## **Sapere report's findings**

7. Sapere's results are based on a 60-year timeframe (2080) rather than the 30-year timeframe (2050) considered by the Working Group. The Sapere report found:
  - 7.1. the port has around 30 years' capacity and the need to move the port is therefore not considered to be as urgent as recommended by the Working Group. There is a ten-year period to make a decision, allowing for long infrastructure lead times

- 7.2. road congestion is not a reason to move the port as concluded by the Working Group. The port is a minor contributor to current congestion in Auckland and a move would not lessen this
- 7.3. all the location scenarios would be difficult to engineer and consent, present very high costs and economic costs outweigh the economic benefit. This contrasts with the EY analysis indicating a net positive economic benefit from a full shift to Northport
- 7.4. the highest ranked option is Manukau Harbour, which is considered technically feasible although difficult to consent (refer **Appendix 1**). The Working Group discounted this scenario as uninsurable. Sapere found that navigability of the harbour entrance and insurability of shipping to use the harbour are less of a concern than the Working Group identified, but this needs to be confirmed by a detailed feasibility study
- 7.5. neither Port of Tauranga nor Northport are likely to be able to create sufficient long-term capacity to provide for both Auckland and its own growth. Sapere reached this conclusion using the same expert port engineers as used by the Working Group, but using a 60-year rather than a 30-year planning horizon, looking out as far as 2080 rather than 2050. In addition, a number of the supply chain actors spoken to by Sapere's highly experienced transportation specialists rejected Northport as an option because they see it as too far from, and on the wrong side of, Auckland.

#### **Perspective gained from Cornerstone Partner, Treaty Partner and Stakeholder engagement**

8. Engagement with Cornerstone Partners, Treaty Partners and other stakeholders has highlighted that there is no consensus on a preferred relocation option. However, there were common themes on many points, including:
  - 8.1. a high level of interest in the five options, and the process by which the government will make a decision on its preferred option
  - 8.2. a desire to see that decision based on evidence, and grounded within the wider strategic context of ensuring a secure, efficient Upper North Island supply chain
  - 8.3. some support for consideration of "hybrid" options (i.e. those that retained a freight footprint in Auckland should the port move elsewhere). These were beyond officials' brief.
9. Almost all of those engaged with made it clear they want to be more deeply involved before a preferred relocation option is agreed. This was particularly the case for Auckland Council as owners of POAL, whose agreement is needed in order to close the port. Iwi also see ongoing engagement as consistent with the Treaty partnership.  
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10. 
11. The engagement has also highlighted that stakeholders, on decisions of this scale and significance, have a strong preference to receive Ministers' thoughts directly on the strategic direction for the POAL.

## Comment

*This briefing does not contain policy analysis*

12. As noted in the two previous briefings [OC200252, T2020/700 and OC200366, T2020/1414 refer], the ability of officials to engage in UNISCS work has been curtailed by the COVID-19 crisis. Specifically, we have not had the capacity to work as closely as we anticipated with Sapere since mid-March 2020, or to develop appropriate policy advice based on this analysis.
13. Stakeholder engagement has also been truncated. Our recommendation later in this paper is that Ministers allow us additional time to complete the policy process. However, Ministers have asked to receive the Sapere report at the current time before our policy advice has been completed. Officials provide the following comments with this in mind.

*There are significant differences between Sapere's and the Working Group's conclusions*

14. There are significant differences between the Sapere technical assessment, and the conclusions of the Working Group and its economic advisers, EY. Officials have had limited time since Sapere started to deliver their conclusions from late March 2020 to understand and critique these differences.
15. However, the Sapere work has widened the evidence base and contributed new findings to inform the analysis of the five potential port options, particularly in terms of:
  - 15.1. capital costs for port, road and rail infrastructure. Sapere has had considerably more time than the Working Group to develop cost estimates
  - 15.2. supply chain operating cost impacts. Sapere has tested and revised EY's operating cost estimates
  - 15.3. the consentability of a new port/expansion at all port locations. Resource management planning experts were engaged to advise on the ability to consent the five options
  - 15.4. specific traffic modelling to inform views on existing and future congestion, whereas the Working Group relied upon existing reports
  - 15.5. extending the Cornerstone and Treaty Partner engagement initiated by the Working Group
  - 15.6. detailed assessment of the financial impacts of land redevelopment on Auckland Council and the amenity benefits to ratepayers.
16. The formulation of our advice would benefit from the opportunity to develop a considered view on the balance of this evidence. Drawing on both reports, and our stakeholder engagement, we will be able to better inform Ministers about the benefits, costs, uncertainties and risks.
17. In the meantime, the key areas of difference between the reports which we consider to be particularly material to any future decisions are set out below.

## When should POAL move and when is a decision on location required?

18. Sapere found that POAL will not reach capacity until the end of its 30-year planning horizon, if current proposals to increase dredging and expand berthage are consented. The Working Group reached a similar conclusion on long-term portside capacity. However, both reports note that consent may not be granted, reducing the time until POAL reaches portside capacity.
19. Conversely, we note that POAL has lost market share to Tauranga in recent years. Possible further loss of market share, lower growth rates than assumed, a move away from Auckland of certain freight (e.g. cars) and expansion beyond its 30-year plan may extend the time before the port reaches portside capacity.

*Congestion is not a reason to shift the port and is likely to be worse if POAL land is developed*

20. The Working Group placed emphasis on congestion beyond the port gates as a driver for an urgent port move, rather than portside capacity. However, the Working Group did not undertake traffic flow modelling.
21. Sapere has provided a more complete picture of what may happen in Auckland if the port moves and the land is developed into high-density commercial and residential land. Sapere's advice is that traffic congestion is not a reason to move the port and that it is likely traffic congestion will worsen, or remain constant at best, if the land is developed into higher traffic generating residential and commercial land uses.

*The Working Group's conclusion that the port has lost its social licence has not been fully quantified*

22. The Working Group also placed strong emphasis on POAL's loss of social licence as a driver for an urgent port move. However, the Colmar Brunton survey that underpinned their conclusion did not indicate that moving the Port may have a significant economic cost as identified by Sapere.
23. If so, this would be borne largely by taxpayers or Auckland ratepayers, in the form of infrastructure costs, and consumers if the retail prices of imported goods increase. While Sapere have advanced our thinking on social licence with their high-level assessment of amenity benefits, we feel this issue needs further work.
24. Overall, although we note the intensity of debate on the future of POAL, we suggest that there is sufficient time for a decision on this issue to be taken once the issues and risks highlighted by Sapere have been assessed, along with additional policy work, stakeholder engagement, and a feasibility study on a preferred location.

## Where should POAL relocate?

*Further policy work is required before making a decision*

25. Both EY, on behalf of the Working Group, and Sapere, have undertaken an assessment of the extent to which the five relocation options support government objectives. EY explicitly weighted objectives, at the request of the Working Group, whereas Sapere in consultation with officials took the view that weighting of government public policy objectives is an issue for Ministers. Please refer to the table on page 15 of the Sapere report attached as **Appendix 1**.
26. Benefit cost ratios have been calculated for all five options by Sapere; and for all but Manukau by EY. Overall, the two assessments drew different conclusions on the costs and

benefits of the five options. Please refer to the table on page 12 of the Sapere report for a summary of Sapere's results (attached as **Appendix 1**).

*Key considerations and risks for each of the five location options based on Sapere's findings*

27. Based on Sapere's findings, we would provide an initial summary of the key considerations and risks for each of the five location options as follows:
- 27.1. **Northport** – highly constrained expansion potential providing insufficient capacity in the long term (beyond 2058), particularly if Northport/Whangarei harbour were confirmed for a proposed dry dock and/or relocated naval base. Operating beyond this period would require problematic expansion into residential areas, wetlands, Refining NZ and the coastline. Supply chain users also note that market acceptance is highly uncertain, which could result in an underutilised asset
  - 27.2. **Port of Tauranga** – highly constrained expansion potential providing insufficient capacity in the long-term (beyond 2056). Operating beyond this would require problematic expansion into highway, airport, public reserve and marina
  - 27.3. **Northport/Tauranga** combined option – this option has the third highest capital cost for all infrastructure including road and rail. There is also a possibility of low market acceptance of Northport as an alternative to POAL, which risks an expanded Northport becoming a underutilised asset
  - 27.4. **Manukau** – faces likely consentability barriers and has the second highest capital cost. Sapere found that navigability of the harbour entrance and insurability of shipping to use the harbour to be less of a concern than the Working Group identified, but this needs to be confirmed by a detailed feasibility study
  - 27.5. **Firth of Thames** – highest capital cost, and faces highest consentability barriers.

*Northport or Port of Tauranga are unlikely to have sufficient capacity beyond late 2050s*

28. Officials note Sapere's conclusion that it is unlikely that either Northport or Port of Tauranga have sufficient capacity on their own to take all of POAL's trade by 2080. We also note their advice that Northport is not likely to be able to accommodate both POAL and a possible dry dock or naval base relocation, should either or both proceed.

*A balance needs to be struck between international shipping lines' and ports' market power*

29. We agree with the Working Group that the balance of market power between the international shipping lines and the ports is an important factor in decisions on POAL relocation, and note the international trend to bigger ships.
30. We also agree with the Working Group that competition between ports, ownership structures, and supply chain resilience, are also key factors. However, we need to confirm whether these factors necessarily favour Northport. We propose to provide advice on strategic competition, ownership and supply chain resilience issues as part of our policy analysis alongside other issues such as consentability and social licence.

*Key supply chain interests indicate Northport is neither commercially attractive nor efficient*

31. We note that a theme from key supply chain operatives, spoken to by Sapere's transport specialists, was that Northport is not commercially attractive because of its location relative to the rest of the Upper North Island. We have concerns that a decision to move POAL to

Northport could be ignored by some freight operators, who might use Tauranga instead, leading to an underutilised asset.

32. Officials note that efficiency needs to be considered across the whole supply chain and that the movement of empty containers needs to be kept to a minimum. International shipping costs, port costs and the level of competition also affect the price paid by shippers and consumers.

#### *Impact on consumer prices*

33. The Working Group found that there was no impact on consumer prices from a move to Northport, whereas Sapere concluded that the retail cost of goods to consumers could increase for most of the options. The impact of port relocation on supply chain costs is a significant consideration and as noted earlier, we will provide further advice on this.

#### *Stakeholders have emphasised the differences between types of imported freight*

34. Supply chain stakeholders have emphasised that differentiating between different types of freight is important and that some types of freight (e.g. cars) require less port infrastructure than containers and are relatively straightforward to move. Conversely, additional transportation costs for low value-to-weight (e.g. cement and aggregates) cannot sustain high domestic transport costs. A shift from POAL could result in cost increases in downstream bulk markets, for example building and construction.

#### *Emissions and safety are affected in line with increased operating costs under all options except Manukau*

35. Sapere have extended the scope of emissions impacts included by EY/the Working Group by covering more emission types and applied these to more trip types. Given the increase in transportation distance, this also has a negative impact on safety costs.
36. As a result, there are significant differences between the studies in relation to emissions. For example, Sapere estimate the discounted present value of emissions costs increase over 60 years at \$188 million for Northport relative to the status quo. EY for the Working Group in comparison estimated a \$23 million reduction in emissions costs over 30 years.

#### *Sapere concurred with the Working Group in identifying only modest Regional Economic benefits from a shift to Northport*

37. EY estimated 2,000 sustainable jobs in Northland, while Sapere's estimates were in the order of 3,000 to 4,000. Nonetheless, Sapere advise that relocation of port activity is unlikely to substantially alter regional economies.

#### *Consentability issues likely to be greater for Manukau and the Firth of Thames*

38. We agree with the advice that all options have significant consentability issues, but that these are likely to be greater for Manukau and the Firth of Thames, as they would be new port locations.

#### **New Zealand Infrastructure Commission perspective**

39. The New Zealand Infrastructure Commission, Te Waihanga (Infracom) have confirmed that they have engaged with officials throughout the development of the Sapere report. Infracom has been afforded the opportunity to provide comment throughout the report's development and they concur with officials recommendations contained in this briefing.

40. Separate from UNISCS, Infracom advise they are undertaking a study to understand the policy settings that drive the efficient location of port operations. The study will cover governance, regulatory and financing issues along with major trends impacting the supply chain.
41. This will inform Infracom's 30-year infrastructure strategy, and could provide broader context as to the wider range of matters that impact port development and location decisions. Infracom, however, will not take a view on any particular port location discussions taking place currently.

### **Implementing a decision to move POAL**

*Officials recommend that Cornerstone and Treaty Partners be fully engaged before a decision is made*

42. The Cornerstone Partners have requested further engagement throughout our engagements with them. Auckland Council, as owner of POAL, has a particular stake in the decision to close POAL and relocate its activities elsewhere. Our advice is that further, deeper engagement with Cornerstone Partners is highly desirable to maintain these essential relationships.
43. A number of Māori organisations have signalled their concerns with Treaty obligations and land ownership interests. These organisations seek further engagement before a decision is taken.

*Financial incentives to redevelop POAL land into residential and commercial property are low*

44. The Working Group placed strong emphasis on the financial benefits to Auckland Council from relocating POAL and redeveloping the current port site for high-density commercial and residential purposes. Sapere's engagement with Auckland Council, based on their Wynyard Quarter redevelopment experience, indicates that there are high costs and therefore low financial incentives for this type of redevelopment.

*City shaping/amenity benefits and the need for a financial incentive*

45. We agree with the Working Group that there will be city-shaping/amenity benefits in moving the port. Sapere has advised that some form of financial incentive from government is likely to be required to move the port, if Auckland Council does not value the city shaping benefits, and the Government wishes nevertheless to see the port moved.

*Potential for action prior to taking decisions*

46. There may be 'least regrets' investment options, such as road and rail investments, that the Government may consider prior to a decision being taken on port location. A review of the ownership structures and regulatory framework for ports might also be justified before a relocation decision is made. However, we have not been able to provide informed advice on these matters in the time available.

### **Officials consider further policy work is required before taking a decision on which option to take forward**

47. In response to the uncertainties and risks highlighted above, we recommend that Ministers defer their decision on which option to take forward, and commission officials to complete policy analysis with a focus on key gaps.

48. Our advice would include:
- 48.1. conclusions on the balance of evidence where there are significant analytical differences between Sapere and the Working Group/EY. In particular this would include advice on the benefit cost analysis for each option, and the extent to which each addresses government objectives
  - 48.2. further insights on strategic competition, ownership and supply chain resilience issues. This would include assessment of the Australian model of competition within a potential “super port” variation on the options, rather than competition between ports under single or multiple ownership
  - 48.3. the management of risks, sequencing of decisions, opportunities for early investment and regulatory change, and next steps. The first step in taking an option forward would be to undertake a feasibility study
  - 48.4. the outcome of continued engagement with Cornerstone and Treaty Partners, and with other stakeholders, and resulting recommendations.

#### **Four decision-making options for Ministers**

49. Officials consider there are four next step decision-making options for Ministers, presented below.

**Option 1: Note Sapere and Stakeholder engagement reports to Cabinet, and then release publicly**

50. This option would involve publishing the reports following consideration by Cabinet, but not taking a substantive decision on port relocation to Cabinet.
51. This option is not recommended. Officials consider that publishing the Sapere report without providing context presents significant risk. Stakeholders would be presented with two reports (the Working Group report and the Sapere report) without a clear recommended approach or reconciliation of the differences. Stakeholders would experience further uncertainty without a clear timetable for resolution.

**Option 2: Defer decisions and direct officials to complete policy work (recommended)**

52. Once the COVID-19 response and recovery work is complete, officials will have capacity to return to UNISCS work. However, while we cannot predict workloads with any certainty at this stage, we do not envisage officials being able to do so for at least six months.
53. In the meantime, stakeholders would be informed of the delay, but the Sapere and stakeholder reports would not be released until officials provide policy advice, as the matter would remain under active consideration.
54. This option is recommended. We consider that, while this option entails a delay of at least six months, it applies the necessary analysis to a decision of national significance.

**Option 3: Reduce potential port locations options**

55. This option would involve Ministers taking a decision to remove one or more of the potential port locations from future consideration. The remaining options would be subject to further policy analysis or, if Ministers chose, a shortlist of options could progress to feasibility study.

56. This option is not recommended. Our advice is that taking options off the table at this stage runs the risk of excluding options before full policy analysis is completed. However, if Ministers chose this route, based on analysis from the Working Group and Sapere, we would advise:
- 56.1. both studies found that the Firth of Thames option appears to perform badly because of high capital cost and poor consentability and would therefore have the lowest risk to remove
  - 56.2. analysis by Sapere and insights from industry experts and stakeholders warrant keeping Manukau in the option short-list because it is likely to be technically feasible and has the highest net benefit, although would face considerable consenting challenges
  - 56.3. the evidence for removing Northport, Port of Tauranga or a combination of the two is less clear, but some factors for consideration include:
    - insufficient long term capacity at both Northport and Tauranga when considered out to 2080
    - reported lack of market acceptance of Northport and risk of an under-utilised asset.
57. Feasibility studies would involve much more detailed assessments of future options, and are likely to cost a significant sum (of the order of several million dollars per option). We would not recommend feasibility studies be undertaken for more than two options.

**Option 4: Take a decision on which preferred option to take into a feasibility study**

58. This option entails Ministers taking a decision on a preferred option for relocating POAL and, subject to Cabinet approval, moving to a feasibility study.
59. This option is not recommended. There are significant risks from moving to a feasibility study on one option now. These include:
- 59.1. evidence has not been fully assessed and policy advice has not been developed
  - 59.2. a clear-cut preferred option has not yet been identified, and there are significant risks with all options
  - 59.3. significant Cornerstone, Treaty Partner and wider stakeholder concerns.

**Timing**

60. The December 2019 Cabinet Minute requested a report back to Cabinet by May 2020. The options below vary this report back date. Options 1 and 4 above require a report back to Cabinet. Option 3 would require a report back to Cabinet if moving to feasibility stage. Options 2 and 3, if continuing with the policy process, would not require a Cabinet paper at this stage.
61. If Ministers wish to progress a decision to Cabinet, we would note that the last DEV Committee before the election is 5 August 2020.

## Communications

62. Given the high degree of interest in this issue, it is recommended that there be further communication with Cornerstone Partners (particularly Auckland Council as owners of POAL), as well as Treaty partners following any decision by Ministers.
63. If option four is the preferred option, we recommend Ministers meet with Cornerstone Partners before a Cabinet decision. If one of the other options is preferred, we recommend that communication with stakeholders take place after Cabinet make decisions.

## Recommendations

64. The recommendations are that you:

- (a) **note** that in the briefing dated 8 May 2020 [OC200366 T2020/1414 refers] Ministers agreed to receive the Sapere report and stakeholder engagement report by early June 2020
- (b) **note** the attached reports:
- *Analysis of the recommendations of the Upper North Island Supply Chain Strategy Working Group and options for moving the Port of Auckland*
  - *Upper North Island Supply Chain Strategy: Report on Stakeholder Perspectives*
  - *Upper North Island Supply Chain Strategy: Report on Treaty Partner Perspectives*
- (c) **agree** to support one of the following options:

Option 1: Note Sapere and Stakeholder engagement reports to Cabinet, then release them publicly	Yes / No
Option 2: Defer decisions and direct officials to complete policy work (recommended)	Yes / No
Option 3: Reduce potential port location options	Yes / No
Option 4: Take a decision on which preferred option to take into a feasibility study	Yes / No

### *Communications and engagement*

- (d) **agree** on further communication and engagement, depending on which option is preferred: Yes / No

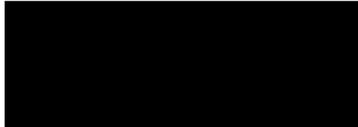
For Options 1, 2 and 3, officials draft a letter on behalf of Ministers to notify Cornerstone Partners, Treaty Partners and other key stakeholders of those decisions, with wording to be agreed by your offices. This would be following Cabinet decisions

For Option 4, before any Cabinet decision, Ministers meet with Cornerstone Partners (particularly Auckland Council as owners of POAL) to discuss this matter

(e) **agree** that, if Option 1 is preferred, officials will work with your offices on a communications plan for the release of these reports as well as a short media statement to use in responding to media queries Yes / No

(f) [REDACTED] Yes / No  
[REDACTED]  
[REDACTED]

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Withheld to protect the privacy of Natural Persons

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Hon Grant Robertson  
**Minister of Finance**

Hon Phil Twyford  
**Minister of Transport**

Hon Shane Jones  
**Minister for Regional  
Economic Development**

**Appendix 1:** Analysis of the Upper North Island Supply Chain Strategy Working Group Options for moving freight from the Port of Auckland

**Appendix 2:** Upper North Island Supply Chain Strategy: Report on Stakeholder Perspectives

**Appendix 3:** Upper North Island Supply Chain Strategy: Report on Treaty Partner Perspectives