

October 2009

The Director  
National Infrastructure Unit  
The Treasury  
PO Box 3724  
WELLINGTON

To the Director

**Re: National Infrastructure Plan**

Thank you for the opportunity to make a submission in relation to document (Infrastructure: Facts and Issues – Towards the First National Infrastructure Plan) issued by The Treasury in September.

Shipping is reliant on the use of port infrastructure and is also significantly impacted by government decisions in respect to pricing of, and investment in, other transport infrastructure, notably road and rail infrastructure. Consequently, any plan for managing our national infrastructure is of very material consequence to shipping.

There are just two issues we would like to raise in this submission. They are both very important and not adequately addressed in the issues document.

First, there is a disappointing lack of recognition of the contribution of shipping to our domestic supply chains, particularly in the context of the discussion of the role of rail. Domestic shipping carries 15 per cent of the volume of domestic cargoes (and that figure does not include the very substantial volumes carried across the Cook Strait nor transshipment cargoes carried along the coast but bound for foreign shores). Some freight will always be carried by road. Some will always by rail. But, there is a large chunk of freight that is contestable and shipping is one of the contenders. This needs to be understood and taken into account in respect to decisions about transport infrastructure investment.

Second, the document does not adequately address the consequences of New Zealand applying different ownership and management models to different types of infrastructure. In the transport sector this is very important in terms of its distortion of price signals and modal choices in the freight transport market and the enormous foregone taxpayer revenues.

Port infrastructure is managed on a commercial basis and ports set charges in order to make a return on the value of their assets. This has a major bearing on the cost of shipping. Infrastructure costs can be between 30 and 50 per cent of the costs of a domestic shipping operation.

By comparison, there is currently no expectation that the rail network will produce any return on its value. In fact, it is receiving a substantial government subsidy just in order for it to cover operational costs.

The State Highways alone are valued by The Treasury at \$21 billion (and they only represent 12 per cent of the total road network). Yet, unlike ports, unlike the electricity network, the road network is not expected to produce any return on its value. This represents an enormous subsidy. The price of using roads is being set at a level a long way below what is optimal and the taxpayer is foregoing

billions of dollars in potential revenue. Furthermore, the State Highway network only represents 12% of the total roading network.

This is the most fundamentally significant issue in the transport sector. Its resolution would have a huge impact on transport pricing and choices. Arguably, it is New Zealand's biggest unresolved infrastructure issue. At a time when state assets are being asked to improve their returns, the biggest asset lies idle. Furthermore, it is a very important environmental issue. The under-pricing of road use is contributing to emissions as well as congestion. Yet, it is hardly alluded to in the issues document.

In fact, there are some sections of the document that highly misleading and contrary to the obvious reality. For instance, on page 29 it is stated "It is also possible that road freight prices are on average close to the economically correct level across the country (or at least there is no contrary evidence)." This is a concern given this document is to contribute to the shape of infrastructure policy long-term.

Regards

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NZ Shipping Federation