3 September 2002

NEW ZEALAND TRANSPORT STRATEGY

SUBMISSION FROM
NZ FOREST INDUSTRIES COUNCIL
AND
NZ FOREST OWNERS ASSOCIATION

1. Introduction

1.1 The NZ Forest Industries Council and the NZ Forest Owners Association wish to take this opportunity to comment on the Government's draft New Zealand Transport Strategy.

1.2 The New Zealand Forest Industries Council (NZFIC) is the pan-industry association of the NZ forest industry. Its members include New Zealand's largest forest industry companies and key sector associations. The mission of the Council is to enhance the industry's international competitiveness.

1.3 The New Zealand Forest Owners' Association (NZFOA) is a voluntary organisation representing the interests of commercial forest growers. The Association has 215 members whose forest holdings represent approximately 85% of New Zealand's commercial forest estate. The members include all the major forest corporates, the majority of medium sized forest companies, many forest syndicates, and a number of farm foresters.

1.4 For the reasons set out below, the Council and Association take a very keen interest in the NZ transport system. Unfortunately neither organisation had an opportunity to participate in the Reference Group process which reviewed the draft Strategy and conveyed its views to the officials responsible for preparing the draft for the Government's consideration.

1.5 For the year ended 31 December 2001, the forest industry earned $3.6 billion of total export receipts and was the country's third largest export earner. For the same year, the industry generated 4.0% of GDP and employed 23,500 directly and 100,000 indirectly.

1.6 The industry's target is to earn $18.5 billion in export receipts by 2025, representing 14% of GDP, and employing 80,000 directly and 250,000 indirectly.

1.7 Following the 1999 General Election, the Labour/Alliance Government identified the forest industry as a key growth industry particularly in regional New Zealand. As a consequence, the Government and industry developed a partnership – the Wood Processing Strategy – to identify and remove the barriers to realizing the industry's growth potential.

1.8 The WPS identified an inadequate transport infrastructure – land transport in particular - as one of the major potential barriers to growth in the industry including growth in investment to process in New Zealand the rapidly expanding wood supply into value added products.

1.9 Both the Government and the industry recognised that, if practical means could not be found to improve the transport infrastructure and to reduce transport costs, the necessary new investment in processing capacity was unlikely to occur.

1.10 The forest industry faces extremely intense competition in export markets and as a consequence, works on very narrow margins. Unless every cost of harvesting, transporting, processing and marketing forest products can be minimised, the investment in new processing capability would be difficult to attract.

1.11 It is for this reason that the Council and the Association are taking such a close interest in the development of a transport strategy for New Zealand.

1.12 The comments below set out the Council's and the Association's detailed comments on the various parts of the draft Strategy. In making these comments, the organisations strongly support the Government taking a pro-active role in developing a comprehensive transport strategy for the country. However, our concern is that a number of proposals set out in the draft strategy, if implemented, could significantly increase costs to the export sector.

2. Need for Efficient Transport System

2.1 The Vision for the New Zealand transport system as set out in the draft Strategy states:

"By 2010, New Zealand will have an affordable, integrated, safe, responsive and sustainable transport system."

2.2 The Council and the Association support the Vision Statement but consider it lacks one vital principle: "efficiency". An efficient transport system is absolutely critical for the forest industry given its dependence on highly competitive export markets. Virtually all of the future increase in wood that will be harvested in New Zealand will be exported; the small domestic market will absorb a minute fraction of this increase. For New Zealand to compete successfully on global markets with countries such as Chile and Russia requires the country to develop highly efficient and flexible supply chains to those markets. An efficient transportation system within New Zealand is fundamental to developing competitive supply chains.

2.3 Also in the section on vision is the statement: "This Government's policy is broader than just economic efficiency." Undoubtedly the government's policy is broad and has to incorporate factors such as health, safety and the environment as well as economic efficiency. However, the tenor that many have read into this statement is that economic efficiency is of relatively less importance in the Government's thinking. We contend that economic efficiency is critical to the economic well-being of the country and that well-being is fundamental to the country's ability to support the funding and management of health, safety and environmental programmes. There are few if any countries in the world which can point to high quality health and environmental performance without economic efficiency and well-being as a base.

2.4 While the Council and the Association do not oppose the inclusion of non efficiency criteria forming part of a transport strategy for the country, we argue strongly that the costs of departing from efficiency criteria must be readily transparent. Road users and society as a whole must be given clear knowledge of the true costs of introducing non efficiency criteria so that they can be measured and openly debated in an informed way.

2.5 The Council and the Association support the acknowledgement that New Zealand does have an isolated position in the South Pacific, that it does have a heavy reliance on trade, and that transport must be able to support sustainable economic development. It follows that for transport to support sustainable economic development, it must be efficient.

2.6 The connection made between improving the energy efficiency of New Zealand's transport system and the Government's commitment to reducing greenhouse gases is also supported. We would take this one step further and suggest that improving the energy efficiency of our transport system would provide not only environmental benefits to the country but also would improve economic efficiency. In our view, there are two major constraints that are blocking government's strategy is this respect:

- Monopoly of ownership of the rail infrastructure which precludes vigorous, innovative and customer friendly competition by rail transport service providers.

- Inefficient load sizes being carried on New Zealand's roads relative to countries with which we compete for a share of their own or global markets, eg Australia

2.7 Overcoming these constraints will be no easy matter for the government, and will require a considerable level of political courage to do so, but there are significant economic, environmental, health and safety advantages to the forest industry and the nation as a whole if it can be done.

3. Rail's Place in the Transport System

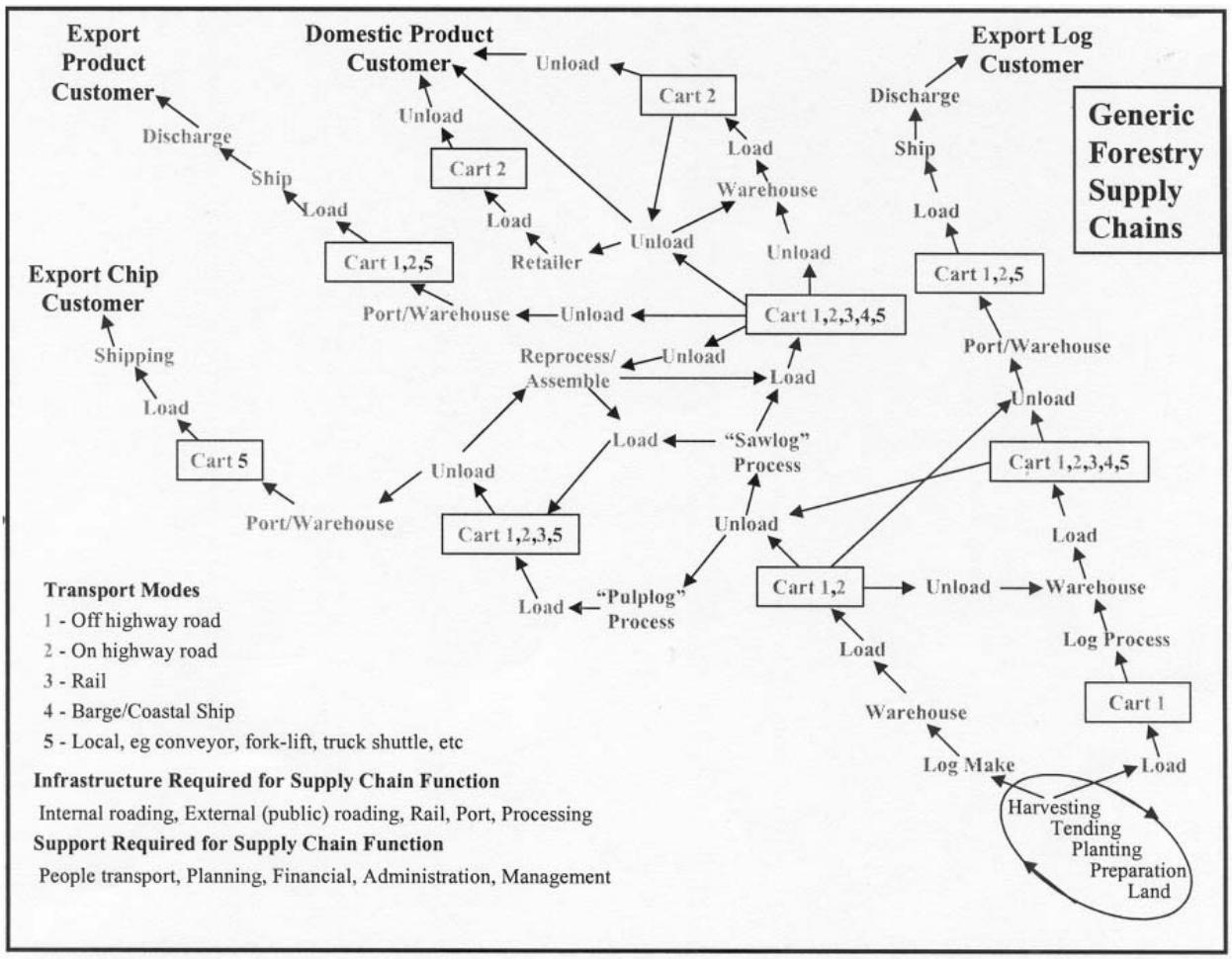
3.1 The draft strategy states that: "Wherever feasible, the government will encourage products to travel on rail." On face value this could be a reasonable proposition based on the relative environmental merits of road and rail **for the transport leg alone.** However, the problem in this argument is that some form of road transport is usually required at either end of the rail leg to get product to the rail and distribute it to warehouses and/or customers. Thus the product usually has to be transferred from truck onto rail and rail back onto truck. In the forest industry, with very few exceptions, the initial transport from the forest is by some form of trucking; there is no escaping this fact.

3.2 The decision to transport directly to customer or transfer onto rail depends on a number of dynamic variables:

- The overall distance to customer.
- The number and cost of transfers off and on truck/train.
- The deviation distance required to get to a rail loading point,
- The need, feasibility and cost of storage.
- The relative distances and costs of the road and rail transport legs.
- The location of the customer with respect to rail.

3.3 This can be a complex decision which requires analysis of logistics operations along the supply chain, not just a comparison of the transport legs. If we consider that each step in the chain utilises energy (eg unloading a log truck requires a loading machine, short haul distances for rail, when combined with shunting, require considerably more energy than do long hauls, and that truck deviations to/from rail yards also consume extra energy), it may show that use of rail in many cases, despite its feasibility, makes neither economic nor environmental sense. Each case needs to take an environmental and economic view of the logistics of delivering product to customers.

3.4 The diagram below provides a simplified view of generic forest industry supply chains. Despite the apparent complexity, it does demonstrate the logistical steps of getting forest product to market in log or processed form; it requires a broader perspective than just transport.



3.5 Another concern of the forest industry is the means of encouraging use of rail given the constraint that the Government does not own the rail infrastructure. Payment of subsidies to a commercial organisation that has monopoly access to the line is not supported by the forest industry as a whole. The Council and the Association believe that such subsidies lead to distortion and unfair treatment across rail users. With the same ownership scenario, encouragement for rail through the use of higher fuel or road user taxes will simply result in the monopoly line owner shadow pricing their rail services against the higher road costs. Again, this would distort the relative economics of transport modes, would be unfair across road and rail users, and would impose further costs on the industry.

3.6 We are not arguing against the use of rail; the forest industry already is a major user of rail for logs and processed product and, provided an efficient and responsive service is provided at a fair price, the industry will continue to utilise rail. Over recent years, rail has lost forest industry business due to service issues and/or through excessive rate demands. Yet many in the industry believe that, with the right structure, ie government ownership of the line, and open and competitive services, the forest industry's use of rail can be increased. Government's role in

this growth would be through infrastructure provision, maintenance and development, as well as encouraging potential customers to utilise rail by providing forest owners and processors competitive access to the infrastructure. Encouragement may extend to getting forest owners and rail yard operators to collaborate, eg channel southern central North Island logs, destined to the Port of Tauranga, through Kaingaroa Forest (off-highway road) to the Murupara rail yard and then rail to the port rather than using the public highway as at present. This would require cooperation and agreement between forest owners as well as some innovative thinking, marketing and management from the rail service provider, something which we believe is impeded by the current rail ownership structure.

3.7 Because of the importance of rail transport to the forest industry, and the potential for large increases if extra rail usage is promoted on non economic grounds, the industry seeks the opportunity to be involved in discussions on the future use of rail as part of the country's transport system.

3.8 The over-riding principle must be that all modes of transport meet the full costs – both economic and non economic. In implementing this regime, the Government must insist that the true costs of departing from economic efficient transport are well researched and transparent.

4. Coastal Shipping's Place in the Transport System

4.1 The lack of discussion on coastal shipping is of concern to the Council and the Association as this mode is utilised quite heavily by the forest sector for long haul transport, eg Tauranga to Christchurch, particularly of processed products such as lumber and paper. Coastal shipping can be an economically viable alternative to both road and rail and, we believe, it is also valid in an environmental sense. Certainly it does form part of an integrated transport system for the country and should be given more prominence than it is in the draft Strategy.

4.2 The role of barging should not be overlooked. In some parts of the country, barging is a viable alternative although we acknowledge that more work needs to be undertaken on its true potential. In particular, research on the potential for barging must also include work on the integration of barging with other modes of transport.

5. Management of the Roading Network

5.1 Government's aspiration to simplify the management of New Zealand's roading network is supported by the forest industry. There is substantial and wasteful duplication of effort, management and infrastructure by central and local government. A lack of regional cohesiveness amongst local authorities is common and their varying rating bases leads each to take a narrow, parochial view of the funding and development for transport needs of the industry.

5.2 It is the belief of the Council and the Association that the process of voluntary clustering of road controlling authorities will be too slow and generally ineffective. Clustering requires local authorities to surrender or share what for many is their largest budget item; many would see it as surrendering their reason for existence and are unlikely to do so voluntarily. We suggest that the government take a more vigorous approach and consider the use of legislation to amalgamate regional road management under a more efficient, effective structure, or providing strong financial incentives to cluster (eg tying Transfund funding to collaborative programmes between councils).

5.3 The Council and the Association support the system of user pays with the caveat that the actual costs incurred by each mode is fully researched and generally acceptable. To this end, the two organisations support electronic tracking of heavy vehicles with the payment system tailored to the true costs they impose on the network.

5.4 At present, we believe that heavy transport is paying more road user taxes etc than is warranted on a strict usage basis. We are pleased to note that this issue is being actively addressed and would be pleased to contribute to the exercise.

6. Funding of Transport

6.1 In the draft Strategy, we note that "historically investment in transport in New Zealand has been heavily dependent on government funding." We do not disagree with this comment but do draw attention to the investment made by forest owners in transport infrastructure within their forest estates. In some cases, this investment is very significant with large volumes of logs and other forest products being, transported on off-highway roading networks rather than on nearby public roads. In fact, forest owners have developed and operate thousands of kilometers of off-highway roads.

6.2 Off-highway transport provides safety benefits in taking some heavy transport flows off public roads and, in some instances, enabling larger loads, relative to those permitted on-highway, to be carried on specialized trucks, resulting in significant productivity gains and energy consumption savings. In a forestry sense, the integrated transport system consists of more than just the integration of national transport modes; it consists of the integration of off-highway, forestry funded roads into local authority and state highway roads, the rail network, and shipping services.

6.3 The forest industry funds a significant part of the transport infrastructure in New Zealand; directly funding through its own off-highway roads, and indirectly through fuel taxes, road user charges and fees paid for services to rail, port and shipping providers. The Council and the Association have no argument with the draft Strategy's contention that there is a need for "sustainable sources of revenue for the NLTF so that public investment can continue to be made in land transport." However, we do point out that the Government already extracts considerable funds

from the forest industry through fuel taxes and road user charges, and that forestry has the burden of self-funding a considerable proportion of its transport needs.

6.4 A substantial portion of the fuel and road user taxes collected from the industry is directed to the consolidated fund rather than being utilised directly for transport related activities, including development work. We suggest that a redirection of all transport taxes to transport related activities should be one of the changes considered by the Government. Any increase in taxes, without a commensurate opportunity for the industry to reduce its own costs, eg through improved productivity, would load yet another cost burden on the forest industry and further threaten its viability.

6.5 There is reference to "targeted funding available for a wider range of transport activities than just roads". Our concern here is one of fairness. We know that most, if not all, of this funding is derived from fuel taxes and road user charges yet is being used to fund non-road activities. In some cases, road transport service providers are funding their direct competitors in other transport modes. We believe this is unfair, particularly when that competitor is a monopoly as in the case of rail. By all means the funding should be provided, assuming sound justification exists, but it should come from general taxes as it is for the benefit of society as a whole.

7. Social and Environmental Considerations

7.1 The forest industry acknowledges the requirement for Government to take into account social and environmental considerations in its transport strategy in addition to ensuring economic efficiency of the country's transport system. Our concern is that an over-zealous approach might be applied to resolving social and environmental issues at the expense of an economically efficient transport system. Such an approach, in the identification and allocation of social and environmental costs, would have significant repercussions on the forest industry.

7.2 There are many logistics/transport steps involved in adding value to forest products through domestic processing. A harsh transport taxation policy, for instance, could see the industry's efforts in adding value within New Zealand, something the government supports on social grounds, handicapped in favour of log exports. Such a policy also could have profound impacts on forest reinvestment decisions and could lead to deforestation and a loss of the carbon credits the country needs to offset its energy use under the Kyoto Protocol. Increased taxes could undermine the sustainability of plantation forestry.

7.3 If there are genuine social and environmental costs associated with forest transport that outweigh the benefits this transport brings to society as a whole, then, provided this is specifically evidenced on a case by case basis, forest industry participants involved would need to work with Government to mitigate the impacts through the most appropriate process. We would be opposed to a generalized approach which is not supported by concrete evidence.

7.4 As noted in our introductory comments, the forest industry has the potential to develop rapidly over the next 10 to 20 years as more of the country's plantation estate grows to its economic harvest age class. In addition, the potential for added value processing in New Zealand could develop at an equal, if not greater, rate. While the draft Strategy looks for a decoupling of economic development and transport growth, there is little doubt that the transport needs of the industry will grow rapidly to keep pace with the harvest. And this is due not just to the increase in harvest from the forest but also to the location of the "new" forest regions. In the past, most of the harvest has come from large corporate (or state) forests in well established forestry areas such as the Central North Island. A significant component of the resource was harvested from contiguous estate that supported off-highway roading systems that, in some cases, linked to the rail network.

7.5 While the harvest from large contiguous estates will continue, an increasing proportion is already coming from smaller, often non-corporate owners in emerging harvest areas (eg Gisborne, Northland) and non-contiguous estate. The impact is being felt already in the log transport sector; road user charges for logging have mushroomed over the last five years as more of this type of forest is logged due to the need to utilise local authority/state highway roads to gain access to the estate and the longer haul distances involved. This trend will continue to escalate.

7.6 While there is no escaping the fact that forest industry economic development in New Zealand will be directly related to road transport growth, there are opportunities to reduce road usage. Regional development can assist by providing local markets rather than having to cart to markets in other regions. There may be potential in upgrading or developing rail infrastructure in regions where this is available, but this has to be considered carefully otherwise the Government could subsidise lines that cannot be justified under any economic or environmental criteria. Perhaps encouraging the clustering of processing plants close to ports or around existing plants, particularly major residue users such as pulp mills, could be another opportunity that the Government should consider.

8. Regional Development

8.1 Regional development, and Government's proactive assistance in developing the transport infrastructure to support it, is applauded by the forest industry. We see a number of advantages for forest owners, local communities and the Government arising from this transport infrastructure development. Gaining all weather access to significant resources increases the potential to expand existing, or develop new, regional processing plants. Regional processing provides employment opportunities, attracts and develops higher skill levels and, by increasing the local market for logs, should reduce some of the long haul transport undertaken by forest owners who currently have to seek markets in other regions. The improvement in road standards through regional development will also improve the safety for all those who use country roads.

8.2 The criteria and processes in applying for transport funding in relation to regional development are still being considered by Government departments concerned. The Council's and the Association's concern is that the new procedures be clear, simple and realistic. A requirement, for instance, that local authorities in regional development areas have to find a portion of the funds themselves is not considered realistic in most cases, given their low rating base and their own lack of funds.

9. Workforce Skills

9.1 The Council and the Association endorse wholeheartedly the Strategy's statement that "a skilled, professional and adaptable workforce is essential", and that "skill shortages are already a growing issue" in transport. This holds across the whole spectrum of forest transport roles, although looming truck driver shortages appear as a major issue for the industry, with shortages of log truck drivers being of most concern. Heavy vehicle drivers, ie those holding Class 5 licences, possess demonstratable skills and experience. The role has become far more of a profession, requiring a considerable investment in time, effort and money for drivers to attain the Class 5 licence standards. In forestry, due to the often difficult nature of terrain and temporary logging roads, the skill level required is greater than for general freight cartage on state highways.

9.2 The industry is looking for answers and, through an initiative involving the Forest Owners Association, Road Transport Forum and Log Transport Safety Council, a study of truck driver retention and recruitment issues has been commissioned to help map out a direction for the future. The Government's support of the initiatives arising from the study is seen as a key to overcoming what could become a major constraint to unlocking New Zealand's forest industry potential.

9.3 Ways of increasing driver productivity, such as larger trucks on specified routes, need to be considered seriously by the Government. Innovations, such as the rule change proposed by the Land Transport Safety Authority to enable a more rapid progression through the graduated licensing programme for mature drivers (over 25 years age) to attain their Class 5 licence have their place. Also, the forest industry supports a well integrated transport network in New Zealand as we recognise that, in the regions where there is access to cost effective alternatives to trucking, ie rail and coastal shipping, the use of these alternatives will help alleviate the log truck driver shortage in the future.

10. Safety and Personal Security

10.1 The Council and the Association recognise safety as a key issue for the forest industry, particularly so in the transport of logs. The industry has invested heavily in time and effort to improve its safety performance. We are strongly supportive of the Government's measures, through bodies such as the Land Transport Safety Authority and the Police, to improve safety on New Zealand roads. This

commitment to safety can be seen in the Log Transport Safety Accord signed by the Forest Owners' Association, Log Transport Safety Council, Road Transport Forum New Zealand and the Farm Forestry Association. A copy of the Accord is attached.

10.2 In 1997, the Log Transport Safety Council, consisting of forest owners, truck operators and truck and trailer manufacturers, was formed to investigate means of improving the safety of logging trucks on public roads, and to make recommendations to forest owners, the Police and the Land Transport Safety Authority. Its sole focus is safety. The means of improving log truck safety include establishing manufacturing and repair standards, improving truck and trailer designs, as well as truck driver and operator education.

10.3 Logging truck roll-overs on public roads have been a major issue and the Log Transport Safety Council, as well as the industry, has been active in seeking ways of reducing the roll-over rate. Measures include:

- A voluntary reduction in log load heights to reduce the centre of gravity and propensity to roll.
- Improved trailer design.
- Driver education and training through road-shows and workshops.
- Improved loading methods (crowning of loads).
- Introduction of 22 metre trucks to dramatically improve the static roll-over threshold of short length logs.
- Advice to LTSA on standards and road rules.

10.4 The improvement in the logging truck roll-over rate since 1997 has been spectacular. In 1997, we were expecting 2.09 roll-overs per million kilometres traveled by log trucks on New Zealand public roads; by 2002 the rate has dropped to 0.63 per million kilometres. While this improvement is very pleasing, the increase in harvest from the emerging harvest areas, eg Gisborne, with their poor roading infrastructure, has the potential to increase the roll-over rate. Apart from the benefits of regional development, the improvement in roading infrastructure in these areas will have significant safety advantages.

11. Regulatory Changes in Ports and Shipping

11.1 The comment that "key studies have examined the need for possible regulatory changes in ports and shipping" is of real concern for the industry. Given our isolation from many export markets, efficient port and shipping operations are fundamental to our success in those markets. We need to understand what regulatory changes are being proposed by the Government as any slippage of operational efficiency back to the costly shambles that existed prior to port reform will impact severely on investment in processing and on forestry reinvestment. Most New Zealand ports have earned a reputation for customer service and efficiency and it is vital to the economy that this performance is, at the very least, maintained.

12. The Role of Government

12.1 As noted earlier, the forest industry supports the Government taking a proactive role in framing and developing New Zealand's transport system as set out in the draft Strategy. The Government's pragmatic approach to regional development activity currently under way in Northland and Tairawhiti is recognised and appreciated by the industry. We hope to see the same pragmatism applied to resolve the problems the country faces in the ownership and access to the rail network.

12.2 The one caveat to the Government taking a more active role is to ensure that it avoids an over-zealous, simplistic and generalized approach to resolving transport related social and environmental impacts. The wrong approach applied could detract from reinvestment in plantation forests in New Zealand to the detriment of the country.

12.3 The Council and the Association look forward to contributing to the ongoing discussion on the objectives, structure, operation and funding of New Zealand's transport system.

12.4 We would welcome the opportunity to meet and discuss with the Government our views on the draft Strategy.