



Evidence pursuant to s42A Resource Management Act 1991

In the matter of:	A Notice of Requirement to construct and operate a new intermodal rail and freight hub on land between Palmerston North and Bunnythorpe
And:	A hearing by Palmerston North City Council pursuant to s100A
Requiring Authority:	KiwiRail Holdings Ltd
Hearing date:	Commencing August 9, 2021

Section 42A technical evidence summary statement for hearing: Economic impacts

By: Shane Vuletich

Introduction

1. My name is Shane Vuletich. I am the Council's section 42A expert on economics.
2. KiwiRail's perspective on the economic impacts of the project has been provided by the experts Richard Paling and Fraser Colegrave. Broadly speaking, Mr. Colegrave has estimated the economic impacts associated with the construction of the Freight Hub while Mr. Paling has estimated the economic benefits associated with the ongoing operations of the Freight Hub.
3. Overall, I agree with these experts that the Freight Hub is likely to give rise to positive economic benefits for the region. I also broadly agree with the categories of economic benefits they have outlined.
4. There are some aspects of Mr. Paling's and Mr. Colegrave's work that I believe are likely to result in KiwiRail's quantified benefit estimates being higher or lower than their true value. While these impact the magnitude of expected benefits, they do not change my overall view that the project is likely to be economically positive for the region.
5. There are, however, several aspects of the project that I believe could significantly influence the level of economic benefits and costs that flow from it. These include:
 - a. the ability of the Freight Hub to integrate with the wider regional freight system;
 - b. the impact of the Freight Hub on local traffic conditions; and
 - c. the level of certainty that will be provided to residents and businesses affected by the project to allow them to make long term planning decisions.
6. In my view, KiwiRail's approach to these issues will have a significant influence on the extent to which this project is viewed as a success by local residents and businesses. Further detail on these and other matters is provided in my evidence.

Issues regarding quantification of benefits

7. I will now briefly discuss the three main areas where I believe the quantified benefit estimates developed by Mr Paling and Mr Colegrave are likely to have either over- or under-stated potential benefits to the region.
 - a. Mr. Paling appears to have modelled the **economic benefits of longer trains** up to 20 years early, when compared with KiwiRail's statements regarding the likely timing of their introduction. The economic benefits of longer trains account for a high percentage (~90%) of the overall economic benefits estimated by Mr. Paling, so his results are heavily influenced by his assumptions regarding longer trains. Alternative modelling provided by Mr. Paling in response to a section 92 information request suggests that correction of the timing issue would reduce the magnitude of his estimated benefits by up to 50% in present value terms.
 - b. The methodology used by Mr. Colegrave to estimate the **economic impacts of the construction phase** does not take into account the opportunity cost of the resources used in the construction process, or the potential for the Freight Hub to displace other economic activity during what is expected to be a very busy period for the construction sector. This is likely to have had the effect of overstating the GDP impacts of the construction phase.
 - c. Neither expert has attempted to quantify the **long-term investment benefits** associated with businesses that start up, expand, or relocate to the region as a result of the ongoing operations of the Freight Hub. I believe these benefits are likely to be significant and their exclusion will have resulted in quantified benefits being understated.
8. Without conducting an independent analysis, which is outside the scope of my evidence, I have not been able to determine the net effect of these issues on the level of expected benefits.
9. Notwithstanding the above issues, I still believe the project will deliver overall positive economic outcomes for the region.
10. In terms of the quantum of expected benefits, I would like to make three points of clarification. One is that the \$1.3 billion in economic benefits that Mr. Paling expects to flow from the operation of the Freight Hub is the

undiscounted value to New Zealand of the expected benefits over a 60-year timeframe. In my view, a more relevant figure from a cost-benefit point of view is the **present value** of expected benefits, which Mr. Paling estimates to be around \$420 million over 60 years. It is important to note that these figures include the benefits of longer trains from 2030, which is up to 20 years early compared with KiwiRail's statements regarding the likely timing of their introduction.

11. The second clarification is that only a portion of the economic benefits quantified by Mr. Paling are expected to accrue to the **Palmerston North** area. In paragraph 7.12 of his evidence, Mr Paling notes that around 20% of the estimated benefits would accrue to rail users in Palmerston North. Mr Paling's section 92 analysis indicates that a further 40% would accrue to rail users elsewhere in New Zealand, and the remaining 40% would be spread across New Zealand in the form of reduced environmental, crash, and congestion costs.
12. The third clarification relates to Mr. Colgrave's assessment of the regional GDP impacts of the construction phase, which he estimates at around \$490m over 10 years. I would expect these to reduce to around \$150m-\$200m if opportunity costs were considered. I would expect them to reduce further if the construction of the Freight Hub redirected resources within the region, which I consider to be likely. And they would reduce further still if they were discounted to reflect their net present value.

Concerns regarding critical success factors

13. I will now outline the other issues, mentioned in my introduction, that I consider to be critical to the long-term success of the project in terms of regional economic development.

Impact on local traffic conditions

14. Section 42A traffic and transportation expert, Harriet Fraser, has outlined in her evidence a concern that increased traffic volumes connected with the Freight Hub will cause or exacerbate congestion in several locations within the city's roading network.
15. From my perspective, this has the potential to result in negative economic and social impacts on affected road-users. These include increased travel

times, higher vehicle operating costs, and reduced connectivity between residents and things they value, such as healthcare, employment, education and friends and family. It could also impose additional costs on the wider community if upgrades to the roading network are required or brought forward because of the activities of the Freight Hub.

16. The nature and extent of unintended consequences such as these will make a meaningful difference to the actual and perceived success of the project.
17. I accept that the funding and timing of potential road network upgrades caused by the Freight Hub cannot be fully addressed in this process. However, I support appropriate conditions being imposed relating to the safe and efficient operation of the traffic network and the identification and upgrade of affected parts of the network that will require attention. I defer to the expertise of Ms Fraser and Ms Coplestone to ensure these matters are addressed through conditions.

Integration with the regional freight system

18. As the panel has heard from CEDA, the Freight Hub forms part of a broader regional strategy to develop a highly efficient, multi-modal freight and distribution precinct in the North East Industrial Zone (NEIZ) area. The planned precinct, known as the Central NZ Distribution Hub, encompasses the NEIZ, Palmerston North Airport and the proposed Freight Hub, with connections to the future Regional Freight Ring Road. To achieve the desired level of efficiency, it is critical that the Freight Hub integrates with the other elements of the Distribution Hub in a way that enables freight to move seamlessly between them.

a. Integration with the NEIZ

19. CEDA has outlined the importance of seamless connectivity between the Freight Hub and NEIZ in future. I would expect connectivity requirements to change over time as freight movements between the Freight Hub and NEIZ increase. For example, traffic signalling and/or a roundabout may be sufficient in the short term while freight movements are relatively small, whereas grade separation may be more appropriate in the longer term once the NEIZ and Freight Hub have further developed and freight movements have increased.

20. Given the long-lived nature of the Freight Hub, it is important that the designation preserves connectivity options for the future, allowing for the possibility that freight movements between the Freight Hub and NEIZ, and/or competing traffic volumes on Roberts Line, will be higher than expected. In my view, more work needs to be done to understand what the realistic long-term connectivity options are, and what needs to be done in the short term to protect them.
21. For these reasons, I support recommendations by Ms Coppleson and others requiring KiwiRail to actively engage with NEIZ stakeholders regarding upgrades to the Roberts Line/Richardsons Line intersection and the solutions required to ensure freight is able to move safely and efficiently between the NEIZ and the Freight Hub.

b. Integration with the Ring Road

22. Given the significant demand that the Freight Hub will place on the region's roading network, I believe it is critical that the Freight Hub aligns with and complements Waka Kotahi's planned Regional Freight Ring Road programme. Ideally, the Ring Road would be in place by the time the Freight Hub becomes operational, but at the very least I believe that the design of the Freight Hub should support an optimal alignment with the Ring Road, and that roading connections between the Freight Hub and Ring Road are made as efficient as possible.
23. Fulfilment of these requirements would enable the efficient transfer of freight between road and rail, maximising the economic benefits of both pieces of infrastructure and advancing the region's objective of becoming a major distribution centre. It would also encourage maximum uptake of the Ring Road and diversion of trucks away from the central city, which are critical to PNCC's placemaking objectives.
24. I support conditions, including measures within the Road Network Integration Plan, that are designed to ensure that efficient and integrated connections with the Ring Road will be achieved and will not be precluded by the KiwiRail design.

Certainty

25. In my opinion, the level of investment benefits generated by the Freight Hub will depend, in part, on the degree of certainty that exists in the public domain regarding the delivery and timing of the project.
26. Given the economic benefits expected to accrue to users of the Freight Hub, rail-dependent businesses will be more likely to invest in the region if they are confident the project will go ahead. Likewise, evidence of investment intentions by rail-dependent firms would be expected to activate investment by businesses wishing to support these firms. A reasonably short lapse period under the RMA would give potential investors the certainty they require to make these long-term investment decisions.
27. Conversely, a longer-than-necessary lapse period may delay or deter private investment, as well as public investment with a dependency on the Freight Hub such as the Ring Road. It would also prolong the uncertainty facing owners of affected residential properties and potentially impede their ability to make long-term investments in their properties or divest and move on.
28. Given the large number of businesses, public sector organisations, and households whose future plans depend on the outcome of this project, I recommend that the lapse period be kept as short as is reasonably possible. Accordingly, I support Ms Copplestone's recommendation of 10 years which I understand is broadly in accordance with the timetable set by KiwiRail for giving effect to the NOR.

Conclusion

29. As noted, my overall conclusion is that the proposed Freight Hub is expected to be positive for the region from an economic perspective. However, I recommend that careful consideration be given to the issues I have outlined to ensure the full economic potential of the project is realised and unintended adverse impacts are minimised.
30. I am happy to take your questions.

Shane Vulefich

24 September 2021