

Meeting Agenda and Information

Hon Steven Joyce, Minister of Transport

5 June 2009

About the Campaign for Better Transport

The Campaign for Better Transport (CBT) is a politically independent, incorporated society which is committed to advocating better transport alternatives to the single occupant car for Auckland city. It is a voluntary organisation that relies solely on membership subscriptions for funding.

Successful campaigns in recent years have included:

- Reopen Onehunga Rail: In 2006 we campaigned hard to reopen the dormant branch railway line between Onehunga and Penrose once again to passenger services. Our 8,000 strong petition and support from the Auckland Regional Council saw the Government finally give the green light for funding on the 13 March 2007.
- Airport Rail: We have a long history of campaigning for a rail link to Auckland Airport. In addition to a petition gathering over 10,000 signatures, we also negotiated with Transit in the Environment Court to reserve enough space for a rail corridor to the west of SH20 at Mangere Bridge.
- Electrify Now: We presented yet another petition, this time in support of electrification, to Parliament in May of 2007

Current campaigns include:

- A proposal for a heritage / modern tram to link Britomart to the new Wynyard Quarter in the Viaduct.
- Action Stations!

Campaign for Better Transport Representatives

Cameron Pitches

Cameron has been the Convenor of the Campaign for Better Transport since its inception in 2002. Professionally, Cameron is a software consultant specialising in Oracle and SQL Server databases, and custom desktop and website development.

Cr Graeme Easte

Graeme is a founding member of the Campaign for Better Transport and is also currently an Auckland City Councillor

Dr Graham Bush

For thirty years Graham Bush lectured in Political Studies at the University of Auckland where he was in charge of the Diploma in Local Government & Administration. He is also the author of four books on Auckland and has been a media commentator on Auckland issues for four decades. From 1999 until 2007 he was a member of the Auckland Regional Land Transport Committee.

Dr Francis Reid

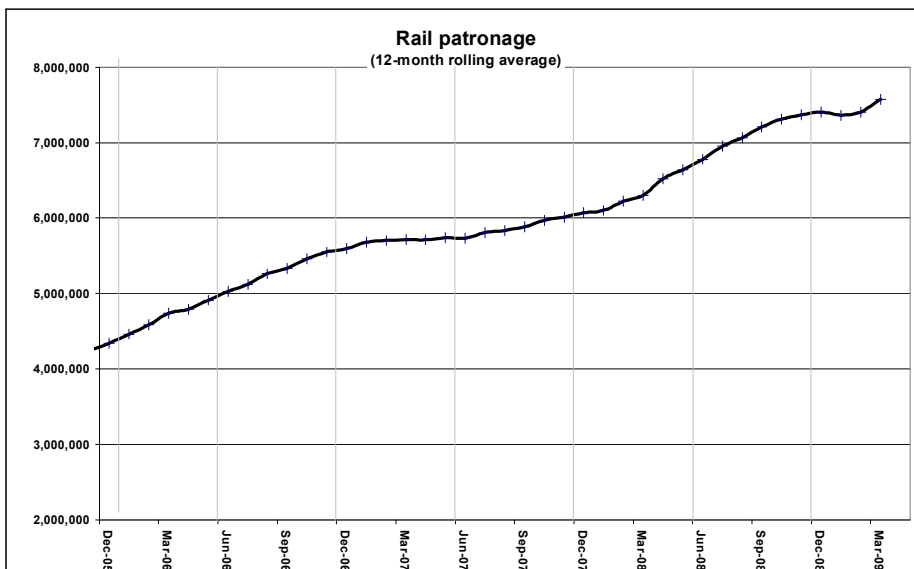
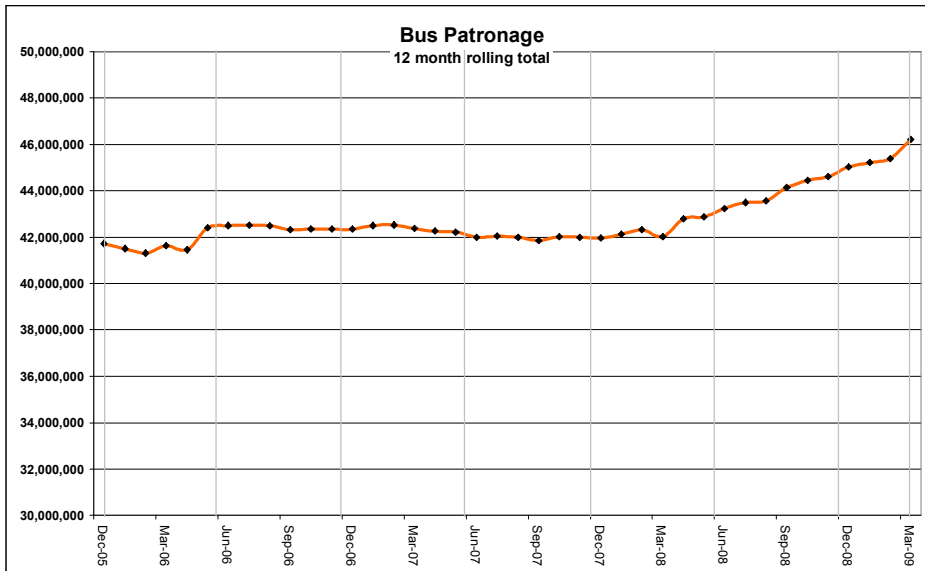
Francis is the campaign manager for our Action Stations campaign. Professionally he works for Fonterra.

Recent Statistics

In its Third Quarter Report to March 2009, ARTA reports strong growth in public transport patronage in the 9 months to March 2009.

- Total public transport patronage increase of 9.9% over the same period last year.
- Northern Express patronage 77.5% higher than the same period last year.
- Rail patronage 14.7% higher than the same period last year.

There were 43,643,596 public transport trips, the highest public transport patronage for any 9 month period since 1985.



Significantly, the Northern Express service has led to a drop in traffic volumes across the Harbour Bridge of between 5 and 10%. Public transport is benefiting road users by taking cars off the road. In 2006, an ARC survey found that 34% of all trips to the Auckland CBD in the morning peak are made using public transport.

Integrated Ticketing

In our view, integrated ticketing is a vital component of an integrated public transport network in Auckland. Without it, public transport fares covering more than one mode of transport can be prohibitively expensive. In some cases, more than one operator can service the same route, requiring two different kinds of tickets. Overseas examples such as London, Hong Kong, Perth, Brisbane and Melbourne show that an integrated ticket leads to an increase in patronage through ease of use.

Furthermore, operators are incentivised to synchronise their timetables with other operators as the overall customer base grows. An integrated ticket also reveals more accurately the costs and subsidies required for particular services, thus ensuring better value for users as well as rate and tax payers.

ARTA also suggest that a primary driver behind their target implementation date of late 2010 is the Rugby World Cup 2011. Auckland will play host to 13 teams throughout the RWC2011 with 8 pool matches and 4 finals, 2 semi finals, the bronze final and the tournament final. In 2008 ARTA undertook an initial Public Transport Feasibility Assessment. The Assessment identified a potential 60 to 80% uptake in non private car transport and the crucial importance of an Integrated Ticket in order to speed up loading times and efficiencies on public transport modes.

In summary, our current understanding of the status of integrated ticketing is:

- An integrated ticket has been talked about in Auckland for over a decade
- ARTA approved the project in the 2008/09 year, and appointed a project director and additional staff to oversee the project.
- The RFT was released in November 2007 and closed in early 2008
- From the ARTA Third Quarter Board report, "as at the end of Q3 2008/09, the AIFS programme has still not progressed into final negotiations with the preferred tenderer... Since November 2008 various external factors, specifically related to funding approvals, delayed the successful signing of a contract with a preferred tenderer. These delays have had a negative impact on costs, however the programme has looked to mitigate these as much as possible by shedding resource and retaining only a slimmed down core of resources on the AIFS team.
- We understand that Infratil have raised concerns about the selection of a preferred tenderer, and have even suggested that legal action is possible.
- With the withdrawal of the regional fuel tax and no announcement of substitute funding, the AIFS project is effectively in limbo.
- The decision on the future of integrated ticketing for Auckland now lies with the Government.

The RFT issued by ARTA was quite specific. Key requirements included the solution be:

- Based on a commercial off the shelf solution which has delivered in similar city environments.
- Scalable
- Non-proprietary, open architecture
- Provide accurate commuter traffic reports

An integrated ticket is a priority for public transport users. Transport operators also need certainty as it is difficult to commit to any improved ticketing technology at this time. When can we expect a decision?

Rail Electrification

The business case for the electrified trains in Auckland was established in an independent report by the Boston Consulting Group in 2003. Electrified trains are favoured because:

- Auckland needs additional trains, and the existing diesel trains are coming to the end of their working lives
- Electric trains are cheaper to operate
- Electric trains are more powerful and have greater traction on steeper grades
- Electric trains require less maintenance, are more reliable and have longer lifespan.
- Extension of the rail network to include an inner city loop tunnel will require electric trains
- Electric trains are faster to accelerate and decelerate than diesel trains. This is important in Auckland as train stations are approximately three minutes apart, so faster trains will lead to about a 20% travel time saving for most services.
- Quieter, non-polluting trains are more attractive to users and populations surrounding railway lines.

We are encouraged by the Government's repeated statements that it supports electrification of Auckland's rail network, and we welcome a decision on the method of funding as soon as possible.

We urge caution in relation to the recent suggestion to investigate public private partnerships as a method of funding. In a recent article, Brian Rudman writes in the Herald:

[Sydney's] rolling stock contract is running months behind and the New South Wales Premier is very grumpy. The Sydney tender process proper started in August 2004, presumably after months of intricate, contract design work. The successful consortium was finally announced in November 2006.

Hailed as Australia's biggest PPP scheme, the Reliance Rail consortium agreed to deliver 626 carriages within six years, the first to start appearing in 2010. The deal included a 30-year maintenance contract. The NSW Government says it's worth \$AUD3.6 billion, however the Sydney Morning Herald last month calculated the true figure, once financing costs and the bill for maintenance over 30 years are included, at \$AUD9.5 billion. Nearly a third of that figure will go in interest payments and the like.

As Rudman points out, in 2006 a Treasury paper concluded that

"there is little reliable empirical evidence about the costs and benefits of PPPs". It said there "are other ways of obtaining private sector finance" and "the advantages of PPPs must be weighed against the contractual complexities and rigidities they entail".

When can we expect a decision on electrification? Because of delays to date, ARTA has already had to order interim diesel trains to meet the soaring demand from rail users. We need new trains now. If the Government is unwilling to fully fund the electric rolling stock up front, an alternative might be:

1. Government takes out a loan for say 20-30 years to finance the purchase (ARTA was going to do exactly this - using the Regional Fuel Tax as collateral).
2. The Government agrees to make repayments(interest & principal as for a table mortgage)of the loan for (say) 4 years.
3. The new Auckland Council (which will take over all assets and liabilities of the existing ARC& City councils) would take over the balance of the loan (or at least part of it - say half) once the trains are delivered and in operation.

This would be more acceptable and just than expecting Aucklanders to pay up front - under this proposal the citizens of Auckland only start paying when the trains are available for them to use.

Contingency for Future Petrol Price Rises

We believe it is the responsibility of Government to have contingency plans in place for foreseeable events.

We are concerned that central and local Government do not seem to have learnt anything from the recent high oil and petrol prices that we experienced last year.

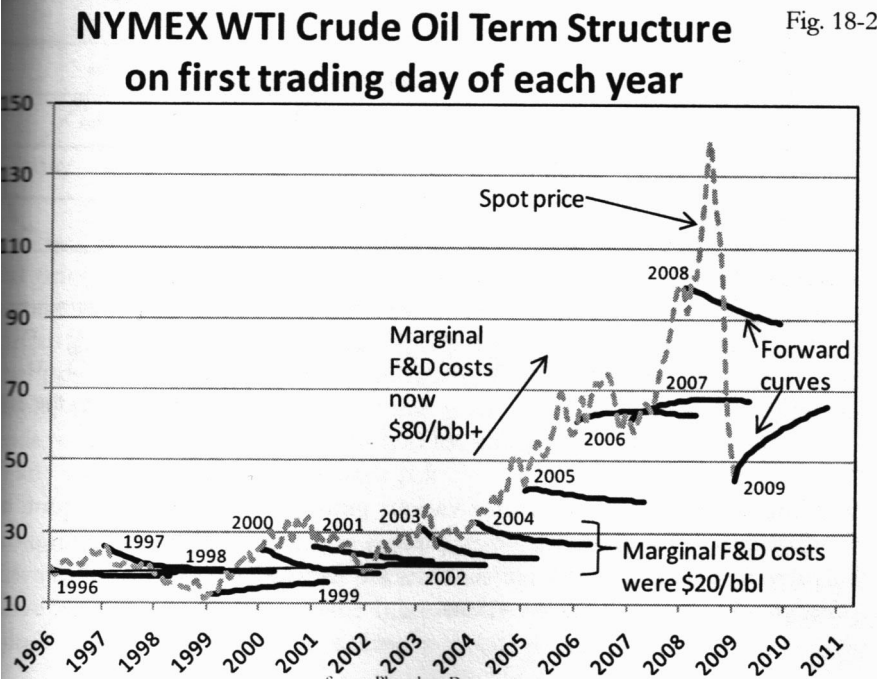
The New Zealand Transport Agency does not produce its own forecasts of petrol and diesel prices and relies on forecasts produced by Treasury.

Treasury completely failed to predict the spike in oil prices last year, but this has not resulted in a review of their forecasting methodology. In its most recent forecast, published on the 28th May 2009, Treasury merely notes that:

Based on the average futures prices for WTI oil in March 2009, it is assumed that the price of oil will gradually increase over time, reaching US\$60/barrel by the end of 2010 and around US\$68/barrel by the end of the forecast period [2013].

This prediction is hopelessly inadequate. The price of oil is \$US68 right now.

Forecasting the price of oil based on WTI futures has never been accurate in the past, as the following diagram shows.



Source: Oil 101 by Morgan Downey

We have no reason to believe that this method of forecasting will be accurate in the future.

As recent transport funding decisions are completely reliant on cheap oil prices for the foreseeable future, we would urge the Minister to review oil price forecasts from other sources. The Minister must acknowledge that should oil prices return to levels seen last year, then most roading projects will not be viable as there will be little demand for increased roading capacity.

As a matter of the utmost urgency, we ask for the development of contingency plans and alternate transport investment projects should oil prices reach certain levels in the near future.

Rail Crossing Grade Separation

With increased services in a few years time (10 minute headways = 6 trains per hour in each direction) there will be 12 trains per hour at each of 25 at-grade level crossings within Auckland City, and others in Waitakere and Manukau Cities.

The increased frequency results in an astonishing number of train movements - varying from about 71,000 per annum on the southern line (Newmarket-Westfield) to over 112,000 on the Newmarket-Britomart line. Applying these numbers at 25 sites suggests several million opportunities for a nasty accident every year - assuming the odds are a million to one against that suggests a couple of those opportunities could prove fatal.

In addition, having the barrier arms go up and down 12 times every hour at all those sites will stuff up traffic on many key roads during the peak hours - for example Woodward Road in Mount Albert has historically been struggling to carry 14,000 vehicles per day but the newly opened SH20 is expected to increase that.

Eliminating all of these level crossings will cost over \$100 million but so far only the ARC has put up any funding (\$23 million) - we need a joint commitment from Government and the City Councils to share in the cost of this significant project.

Other Items

- Government Vision and Strategy for Public Transport – Francis
- Problems with economic assessment of transport projects - Cameron

Appendix A: Transport Economics

With most business opportunities, it is possible to calculate the expected monetary benefits and costs, while considering other factors such as the opportunity cost of capital and project risk.

A similar approach for transport infrastructure projects is also attractive. Just work out the benefits in today's money, divide this by the cost and - *presto!* - you know exactly how much the economy will benefit from for every dollar spent. But for transport projects, this doesn't work.

Since the 1960s it has been standard practice for the majority of roading economic benefits to be derived from travel time savings that road users can expect to enjoy. For the Waterview extension, maximum travel time savings of 15 minutes are expected. By placing a dollar value on each road user's time, this equates to \$2.6bn worth of claimed benefits.

The reality, however, is quite different. In the long run, an individual's travel time savings are replaced by longer trips as travel patterns change. Commuters utilise the increased roading capacity by travelling further distances to work and leisure destinations. Eventually, the average amount of time individuals spend in traffic remains unchanged.

This is backed up by recent research from the UK based Centre for Transport Studies. By analysing the outcomes of nationwide travel surveys, their study found that average travel times in the UK have held constant at around an hour a day since the 1970s, despite expenditure of £100bn on roads over the last 20 years in the UK.

Of course it could be argued that had it not been for this massive investment, then average travel times would be much higher than they are currently. However, the study points out that there were marked swings in expenditure over the 20 year period, and hence new capacity becoming available. Throughout all of this, average travel times remained steady. Here in New Zealand there are no comparable studies, but similar results have been documented in the Netherlands and the United States.

It would seem that promised travel time savings never eventuate in the long term, yet the myth of travel time savings also permeates into other areas. For Waterview, \$690m of benefits are attributed to "reductions in frustration due to traffic congestion over and above the benefits gained from travel time savings." How mental health benefits like this are quantified is not fully explained.

Vehicle operating cost savings of \$40m are also claimed, the logic being that faster cars consume less petrol per kilometre. However, there is no evidence at all that households are spending any less on transport as a result of the completion of roading projects in recent years. The most recent Household Economic Survey in 2007 suggests transport constitutes 14% of expenditure for the average household, but no data is available to cover the subsequent period of high petrol prices.

It would seem that the long term benefits of increased road capacity come not from travel time savings, but rather from the increased choice of destinations for road users. Businesses also benefit from a greater catchment area of potential employees. For the Waterview extension, these "agglomeration" benefits could be as much as \$607m, but this is still well short of the almost \$3bn cost of the project.

An alternative method of estimating economic benefits is based on the user-pays principle.

Transport officials have calculated that if the Waterview motorway extension was tolled at \$2, then just 50% of motorists, or about 75,000 vehicles a day would consider it economically worthwhile to use the route instead of the existing alternative local roading network. It also follows that if Waterview were to operate as a private toll road, hapless investors would stand to lose about a billion dollars over a 30 year time frame.

A substantial economic risk also exists due to volatile oil prices, yet the probability of this occurring does not feature in any economic assessments for transport projects.

Appendix B - 2006 Census

2006 Census Travel to Work

74.9% of Aucklanders drove a car, truck or motorbike to work

12.2% took public transport or used "active modes"

Travel to Work	Auckland Region	Percent
Worked at Home	40,881	7.2%
<i>Drove a Private Car, Truck or Van</i>	324,903	57.2%
<i>Drove a Company Car, Truck or Van</i>	68,742	12.1%
<i>Passenger in a Car, Truck, Van or Company Bus</i>	28,632	5.0%
Public Bus	28,566	5.0%
Train	5,646	1.0%
<i>Motor Cycle or Power Cycle</i>	3,117	0.5%
Bicycle	5,013	0.9%
Walked or Jogged	24,045	4.2%
Other	6,201	1.1%
Not Elsewhere Included	32,241	5.7%
Total Main Means of Travel to Work	567,987	

* Did not go to work today excluded.

Appendix C - Extract on Oil from The Economist, 22nd May 2009

RISING oil prices, believes Ali al-Naimi, Saudi Arabia's oil minister, may soon "take the wheels off an already derailed world economy". On the face of things, this concern is absurd. The plunge of \$115 in the price of oil from its peak last July to its nadir in December was the most precipitous the world has ever seen. Demand for oil is still falling, as the world economy atrophies. Rumours abound of traders hiring tankers to store their excess oil. Rich countries' stocks cover 62 days' consumption, the most since 1993. The average over the past five years has been 52 days' worth.

Nor are oil firms pumping nearly as much as they could. OPEC has announced three separate rounds of production cuts since September in a bid to steady prices. In all, it has vowed to trim its output by 4.2m barrels a day (b/d). That leaves them with as much as 6m b/d of spare capacity. Despite this growing glut, however, the price of oil has been rising steadily in recent weeks. On Wednesday May 20th it closed above \$60 a barrel for the first time in more than six months. That marks an increase of more than 75% since February. The price of futures contracts suggests that energy traders see the price rising higher still in the coming months and years. (During the day on Friday it appeared to be nearing \$62 a barrel.)

The explanation is simple. Oilmen are worried because they believe that many of the factors behind the record-breaking ascent last year remain in place. Much of the world's "easy" oil has already been extracted, or is in the hands of nationalist governments that will not allow foreigners to exploit it. That leaves firms to hunt for new reserves in ever more inhospitable and inaccessible places, such as the deep waters off Africa or the frozen oceans of the Arctic. Such fields take a long time and a lot of expensive technology to develop. Worse, new discoveries tend to be smaller than in the past and to run dry faster.

So oil firms must work doubly hard to replace declining fields and to increase output. Yet the oil industry is short of equipment and manpower, thanks to underinvestment in the 1980s and 1990s, when prices were low. As soon as the world economy starts growing again, the theory runs, demand for oil will once again outstrip the industry's ability to supply it. In other words, the global recession has only interrupted the "supercycle" of which many analysts used to speak, during which the normal boom-and-bust cycle of oil and other commodities would give way to a protracted period of high prices, as ever-growing demand from emerging markets swallowed everything the extractive industries could produce.

Oil bosses, OPEC ministers and anxious bankers all agree on what is needed to prevent this scenario becoming reality: lavish investment in the development of new fields and in exploration. Yet the reverse is happening. The oil industry is cutting its spending, bringing fewer new fields into production and exploring less. The International Energy Agency reckons that overall investment will drop by 15-20% this year.

In theory, this should not be happening. Big Western oil firms ("majors" in the industry jargon) claim that they continue to invest steadily throughout the cycle, irrespective of gyrations in price. Big fields, they argue, can take a decade or more to develop, and may then produce oil or gas for several decades more. The price of oil at the time the investment is approved is irrelevant; the important thing is to make sure projects will be profitable across a range of possible future prices. If anything, given that most oilmen expect prices to rise in the medium term, you would expect them to be increasing their investment, to capitalise on the good times to come. Nonetheless, the extreme volatility of prices over the past year must have made big firms more cautious about future investments.

Then there are the state-owned firms in oil-soaked countries. These companies control the overwhelming majority of the world's oil. The better managed and funded of them plan to continue investing despite the downturn. Saudi Aramco, the world's biggest oil producer, recently completed

a five-year scheme to expand its production capacity from 10m b/d to 12.5m b/d, at a cost of \$70 billion. But in Russia, the world's second-biggest oil producer, output is falling largely because private capital has been scared off by a series of expropriations, while the state starves the firms it controls of sufficient cash for investment. And most oil-rich states, naturally enough, are happy to see the price rise. Many have become used to bumper revenues in recent years and have struggled to balance their budgets since the price slumped last year.

Falling costs within the industry will offset the impact of falling investment budgets to some extent. BP argues its slight cut in investment does not really represent a reduction, thanks to deflation. Yet many constraints on expansion remain. For one thing, the world still does not have as many experienced petroleum engineers and geologists as it needs, says Iain Manson of Korn/Ferry, a recruiting firm. He expects it to take a decade or more to overcome the shortage. Meanwhile, he says, wages in the oil industry are not falling by nearly as much as other costs.

Worse, there is little sign that governments are willing to grant oil companies easier access to the most promising territory for exploration. Iraq's plans to sign big new contracts with foreign firms are years behind schedule, as is its new oil law. American sanctions continue to impede investment in Iran. The Nigerian government has been unable to quell the insurgency in the Niger delta, making it difficult for oil firms to operate there. Even in America, despite years of debate, most coastal waters and much of Alaska remain off-limits to drilling.

So when demand begins to revive, a sharp rise in prices is inevitable. That does not mean that a price spike is just around the corner, however. The speed with which it arrives will depend on the strength of the global recovery. For the moment, global consumption of oil continues to fall, despite the slight brightening of the economic outlook. At the recent OPEC powwow Mr al-Naimi, the Saudi oil minister, argued that a low oil price always sowed the seeds of a future price rise, since it led to underinvestment. The only question this time is how quickly the strain will emerge.

Appendix D - Changes to the National Land Transport Program

Government Policy Statement / National Land Transport Programme - 3 Year Plan					
Activity Class	Range	Old (\$m) 09/10 - 11/12	New (\$m) 09/10 - 11/12	Change (\$m)	Change (%)
Transport Planning	L	\$90	\$96	\$6	7%
	H	\$135	\$114	-\$21	-16%
Sector Training and Research	L	\$21	\$15	-\$6	-29%
	H	\$30	\$21	-\$9	-30%
Demand management and community programmes	L	\$150	\$120	-\$30	-20%
	H	\$225	\$165	-\$60	-27%
Public transport services	L	\$630	\$585	-\$45	-7%
	H	\$760	\$675	-\$85	-11%
Public transport infrastructure	L	\$290	\$60	-\$230	-79%
	H	\$550	\$300	-\$250	-45%
Walking and cycling	L	\$45	\$30	-\$15	-33%
	H	\$90	\$75	-\$15	-17%
New and improved state highways	L	\$1,600	\$2,475	\$875	55%
	H	\$2,200	\$3,450	\$1,250	57%
Renewal of State Highways	L	\$645	\$580	-\$65	-10%
	H	\$705	\$700	-\$5	-1%
Maintenance and operation of State Highways	L	\$915	\$830	-\$85	-9%
	H	\$985	\$1,025	\$40	4%
New and improved local roads	L	\$450	\$450	\$0	0%
	H	\$750	\$750	\$0	0%
Renewal of local roads	L	\$705	\$630	-\$75	-11%
	H	\$735	\$750	\$15	2%
Maint and operation of local roads	L	\$780	\$630	-\$150	-19%
	H	\$810	\$825	\$15	2%
Rail and sea freight	L	\$3	\$0	-\$3	-100%
	H	\$9	\$4	-\$5	-56%
Domestic sea freight development	L	\$18	\$0	-\$18	-100%
	H	\$36	\$4	-\$32	-89%
Road policing	L	\$915	\$885	-\$30	-3%
	H	\$955	\$914	-\$41	-4%
Management of the funding allocation system	L	\$189	\$93	-\$96	-51%
	H	\$207	\$112	-\$95	-46%
Totals	L	\$7,446	\$7,479	\$33	0%
	H	\$9,182	\$9,884	\$702	8%