

International freight transport services inquiry

Final report – April 2012



Overview

Cut to the chase provides a brief summary of the Productivity Commission's principal findings and recommendations to improve the performance of international freight transport services to and from New Zealand. The freight transport sector experienced productivity growth above the OECD average from the mid-1980s to the late-1990s due to innovation and sustained structural reform, but that surge has since dissipated.

The Commission conducted two consultation rounds in the preparation of its final report and considered more than 100 submissions. It also held a series of meetings with interested parties, searched the available literature and conducted its own research and analysis.

Why an efficient transport system is important to New Zealand

New Zealand's high reliance on exports and geographical distance from foreign markets makes the New Zealand economy extremely sensitive to international freight costs. They influence the structure of our economy and ultimately both our standard of living and our cost of living. They impact on the profitability of our export industries and the prices we pay for imports. International freight costs are substantial – representing about \$5 billion in 2010, or 2.7% of GDP.

More than 80% of New Zealand's trade with the rest of the world – by value and by weight, imports and exports – is by sea. The Commission's report reflects this dominance in that many of the recommendations are directed toward improving sea freight efficiency.

International shipping

Collaborative arrangements between international liner shipping companies are automatically exempt from New Zealand's competition law, even where they fix prices or set capacity limits. New Zealand is not unusual in this. Many jurisdictions have accepted that the nature of the liner industry is such that some measure of collaboration is needed to ensure a reliable service.

But this view has been under increasing challenge, particularly since 2008 when the European Union repealed its block exemption for price fixing agreements. The evidence from the EU post-repeal is that prices have remained relatively stable and that there has been no compromise to service quality.

The Commission recommends that New Zealand require shipping companies wishing to collaborate to fix prices or limit capacity to demonstrate to the Commerce Commission that there will be a public benefit which will outweigh any anti-competitive effects.

The automatic exemption would be retained for agreements which are purely operational in nature (with no price-fixing or capacity-limiting component). But there should be a requirement that these are registered with the Ministry of Transport and made publicly available.

The Commission tested the price competitiveness of international shipping services to and from New Zealand by seeking a range of quotes to ship a 20-foot container, port to port costs only, between Auckland, Singapore, Long Beach and Shanghai and between Sydney and those destinations.

The results showed that the Auckland routes were considerably more expensive than the Sydney routes particularly for the sea-transport component. The difference is at least partly explained by the fact that New Zealand has lower freight volumes, with the result that the high fixed costs associated with ships calling at ports have to be spread across fewer containers.

The structural costs which are inherent to the smallness of the New Zealand market make it even more imperative that we maximise any efficiencies that are available.

Onshore sea freight costs

New Zealand's port and border charges compare favourably with other OECD countries, including Australia. But the variability of port performance in New Zealand suggests there is room for improvement – particularly in the areas of workplace productivity and port governance.

Workplace productivity

Work practices at some ports are leaving “money on the table” that, if captured, could be shared among port workers, port owners and port users. A productive workplace is characterised by good workplace relations founded on mutual trust, a shared vision for the organisation, and a willingness to adopt new technologies and to invest in worker skills and development. Achieving this will take time in some ports and will require leadership and a willing attitude from both workers and management.

The Commission does not think a specific legislative response is required but that progress can be expected from improving the governance of the unions and port companies. For unions, this could be achieved by reforms to the Incorporated Societies Act (which applies to all unions) to ensure modern governance structures and practices.

Well governed unions with high-quality leaders can play an important role in overcoming the barriers to achieving high-productivity workplaces, while also advancing the wages and conditions of their members. Implementing this hybrid model of unionism is a major challenge for union leaders and port managers. It can be met with resistance from more ‘traditional’ union members who may see this as a weakening of the union's ability to represent its members.

Port governance

The evidence to the Commission was that the Port of Tauranga approach works well for its owners and customers. Reasons offered for this were the company's mixed ownership structure (it is 45% listed on the NZX), the fact that its majority owner (the Bay of Plenty Regional Council) treats it as a financial asset to be managed according to commercial principles, and the port's contestable business model for containerised freight handling.

Stock market listing brings with it a number of important disciplines. Chief among these is that market perceptions of the company's stewardship and decision-making get reflected in the share price. Others are the regular reporting and continuous disclosure requirements which come with NZX membership. These benefits can be achieved while maintaining a majority stake in public hands.

Decisions about ownership are ultimately the prerogative of the current owners however, so the Commission has developed proposals to encourage a more commercial focus in council-controlled port companies. These include:

- a requirement on the company “to be a successful business as profitable and efficient as comparable businesses that are privately owned”;

- maintaining a separation between the council’s wider objectives and the commercial objectives of the port by precluding elected council representatives and council staff from becoming board members; and
- the Ministry of Transport publish an independent comparative assessment of the financial performance of port companies.

Other transport modes

Air freight

Alliances or code-sharing arrangements between airlines can be exempted from the normal competition requirements of the Commerce Act if they meet certain criteria in Part 9 of the Civil Aviation Act, and are authorised by the Minister of Transport. The Commission considers that a Commerce Act-only regime would be more effective from a freight perspective since the need to obtain a Commerce Commission authorisation would impart a stricter public-benefit test to these agreements on a case-by-case basis.

However, if for reasons related to the airline passenger trade, the Government decides to continue with the dual Act framework, the Commission recommends that Part 9 be strengthened to require the Minister to conduct and offer a cost-benefits assessment for public consultation before any authorisation is granted.

Rail

The Government has yet to present a substantive case for the planned \$750 million contribution it will make to the ten year KiwiRail Turnaround Plan. Government policy should focus on the future prospects of rail rather than past sunk investment and should seek ways to improve transparency of decision making including the publication of cost-benefit analyses.

Coastal shipping

The coastal trade was opened to foreign operators in 1994 and is now dominated by international lines port hopping while in New Zealand. The Commission supports the continuation of the current regime so that New Zealanders can continue to benefit from the lower transport costs that greater competition has brought.

Regulatory costs

Border control

New Zealand’s border control compliance costs – customs and biosecurity – compare well with other countries but are behind international best practice, as established by Singapore. However a big work programme is underway. Progress this year will include the opening of a Trade Single Window, which will allow users to submit documentation once rather than to multiple agencies.

The Commission has recommended that Ministers maintain a high level of oversight to ensure that the momentum for improvement is maintained.

The Resource Management Act

The Commission considers that the RMA should be amended to provide a better balance between environmental outcomes and the net economic and social benefits arising from infrastructural development.



This could be achieved by reviewing the purpose statement in Section 5 of the RMA, or by:

- including specific reference in Section 6 to the development and operation of nationally and regionally significant infrastructure; and
- providing stronger central government guidance to local government through the development of a National Policy Statement.

Investment planning

A number of submitters identified a need for some form of central planning to coordinate future infrastructure investment. The Commission considered a number of planning approaches and concluded that centralised planning and control carries a high level of risk – both risk of error and fiscal risk to the taxpayer.

A case in point is the New Zealand Ports Authority which was established in 1969 to decide which ports would become container ports. The Authority's decision that Port Chalmers should be the container port for the South Island has not been vindicated by subsequent population or economic trends. The Authority was abolished in 1988.

A contemporary equivalent is how New Zealand should gear up to handle "bigger ships" – container vessels with 6000 to 7000 twenty foot equivalent unit capacity. The scenario being promoted by the New Zealand Shippers' Council is for a "hub and spoke" configuration with one hub port in the North Island and one in the South Island. The choice of the hub ports would have ramifications across, and require significant investment in, the whole transport system – including road and rail.

The Commission considers that this combination of uncertainty and very large expenditures is an argument for decentralised decision-making, especially as almost every aspect of the plan is likely to be contested.

Some port companies may believe the arrival of big ships is imminent and invest in the capital works needed to accommodate them. Some may decide to delay investment completely until they have more certainty on the likely returns. Others may invest just enough so that they can respond readily to future changes in the market.

However, the Commission believes that greater use should be made of facilitated discussion models of cooperation. These are based on information sharing and relationship building but do not bind the participants to particular outcomes. An example is the Upper North Island Freight Plan involving regional and local authorities, KiwiRail, the New Zealand Transport Agency, the Ministry of Transport, port companies, shippers and freight transport and logistics operators.

What next?

The final report has been provided to Government. The full report is available at www.productivity.govt.nz. The report is the Commission's advice to the Government and responses to recommendations are at the Government's discretion.

The New Zealand Productivity Commission

The Commission – an independent Crown Entity – completes in-depth inquiry reports on topics selected by the Government, carries out productivity-related research, and promotes understanding of productivity issues.