

NEW ZEALAND AIR CARGO COUNCIL

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SUBMISSION TO NEW ZEALAND PRODUCTIVITY COMMISSION FROM NEW ZEALAND AIR CARGO COUNCIL

INTRODUCTION:

Membership of the New Zealand Air Cargo Council (ACC) is open to airlines operating services to New Zealand as well as to those airlines with code share arrangements and handling agent companies (cargo terminal operators).

In addition other entities whose activities may have considerable impact on the cargo operation of the airlines, e.g. NZ Post, may become members upon invitation by the Council.

The Constitution of the Council provides that “The activities of the Council shall be performed with the intention of providing for the operation of cargo related services which will, to the fullest extent possible, ensure the safety of air transport, operational efficiencies, care of cargo and mail, care of equipment and professional interface with the general public and government departments; and to consider any other relevant and pertinent matters affecting the cargo industry. **However, the meetings of the Council will on no account mention, discuss or otherwise refer to cargo terminal charges, air freight rates, surcharges or marketing strategies to ensure that there can be no implied collusion or contravention of anti-trust rules on these matters.**”

At its meeting on 11 August the Council gave consideration to the NZ Productivity Commission’s Issues Document on International Freight Transport and decided that the ACC should make a submission to ensure that the NZPC is acquainted (from the operational perspective) with the arrangements that currently exist for the export and import of air cargo and the role of the parties in these processes. We see it as important to appreciate that the role of airports is significantly different to the role of seaports.

The airline representatives on the ACC are the cargo managers for the airlines almost all of which belong to the Board of Airline Representatives of NZ Inc (BARNZ). BARNZ is also a member of the ACC (by invitation) and the ACC supports the submission which BARNZ is making to the NZPC on this matter.

This ACC submission will focus more on the practical side of air cargo movement and the well established systems which operate internationally.

Most air cargo shipments move through forwarders who negotiate carriage arrangements and where appropriate consolidate shipments into air cargo containers (ULDs). The ULDs, other unitised shipments or loose cargo items then move to the premises of Cargo Terminal Operators (CTOs) who lease space for their operations from the airport companies.

The CTOs provide services under contract to a number of international airlines. These contracts are basically handling contracts under which the CTO undertakes to handle all cargo for that airline (outbound and inbound) as the agent for that airline.

The airport's role is one of landlord. The CTOs compete for airline business. It is not uncommon for airlines to change CTOs at the end of a contract period.

This arrangement with airports acting as landlords is the norm around the world with two or more CTOs operating at each airport. At some airports the larger airlines do their own handling.

The strongly held airline view is that this system is much to be preferred to a system whereby the CTOs would be replaced by an airport company organisation.

International airlines are used to competition and the advantages which it delivers. Competition between ground handlers for passenger and cargo handling as well as for catering and other service provision is the norm in the aviation sector around the world.

Unfortunately the airlines' experience with airports has tended to confirm that airports use their monopoly position to extract monopoly returns and/or 'clip the ticket' wherever they can.

Turning now to some of the questions posed in the Issues Document and providing responses from the perspective of cargo operations.

International Freight Transport Services System Framework:

The diagram on page 6 of the NZPC Issues Paper could be taken to indicate that seaports and airports undertake similar roles with respect to the cargo passing through their precincts. This is not so. As has been explained, airports play the role of landlords whereas in the case of seaports the involvement of the port (including Tauranga) is integral to the movement of cargo passing through. A bubble showing Cargo Terminal Operators (CTOs) should be added into the Air Transport Diagram in the same position as the Stevedoring bubble for Sea Transport.

The other comment we would make about Figure 2 (page 6 of the Issues Paper) is that "aviation security" should be added to the biosecurity and Customs circle. Aviation security plays a very large part in the processing of air cargo for export.

In response to the NZPC Question 2 ie "Is the framework described in section 3.2 appropriate for this Inquiry? Are there any important Issues that might be missed?", we would point out that the current and ever-changing aviation security requirements (which are mostly being driven from overseas) are a major negative in any consideration of improved productivity.

For example the Transportation Security Authority (TSA) in the USA has announced that all air cargo bound for or through the USA will be required to be xrayed at the port of departure prior to being loaded onto the aircraft. This has very large implications for food safety integrity as well as for costs.

We give this as an example of the sudden and disruptive requirements which can be and are being imposed by other countries on the movement of air cargo.

Consolidation and Trans-shipment Requirements:

The majority of air cargo consists of relatively small shipments which do not fill an air cargo container (ULD). With New Zealand's remoteness coupled with the relatively low value per kilogram of our produce this leads to a high degree of consolidation of same destination shipments and of trans-shipment for the cargo to reach its ultimate destination.

Competitiveness:

International air transport is one of the most competitive environments in the world. This applies to passenger carriage and to the carriage of air cargo. As is pointed out in the NZPC Issues Paper, the majority of NZ's export and import air cargo moves in the belly of passenger aircraft and until passenger loadings, baggage weights, weather conditions and fuel requirements are known for a flight the finalised amount of cargo to be loaded cannot be determined. This requires a system which is flexible and quick to respond.

Question 27: Are Auckland, Christchurch and Wellington Airports subject to competitive pressure for the air freight related services they provide? Do they exert market power to the detriment of New Zealand exporters and importers?

Response:

Because the majority of international air cargo moves on passenger aircraft and because the source or destination of air cargo is not the principal determinant as to the airport that a passenger aircraft uses there is no competition between Auckland, Wellington and Christchurch Airports for air freight.

This unfortunately leads to the situation where airports as landlords for air cargo operations give little or no priority to the efficient and effective siting of cargo handling facilities. The focus of the airports appears to be on getting maximum returns from leaseholders to the detriment of what should be their focus ie the effective siting of facilities at the interface between road and air transport, having regard to security requirements and the working of the air cargo system. The monopoly situation which Auckland, Wellington and Christchurch Airports enjoy reflects through to the internationally high landing charges for aircraft and the high rentals which the airports demand from cargo handlers (including CTOs and forwarders) who need to (in the case of CTOs) or should (in the case of forwarders) be sited on airport.

Question 30: What levels of investment have Auckland and Christchurch Airports undertaken in international freight and are they consistent with accessible and efficient services for New Zealand exporters and importers?

Response:

The experience of air cargo managers is that airports do not understand the requirements of air cargo and are not prepared to adequately invest in the facilitation of air cargo movements.

Question 31: Should the future size and shape of New Zealand air freight services be left to market forces and individual airport owners or do lumpiness and interdependence (including with investments in connecting parts of the overall supply chain) call for a more deliberately coordinated approach?

Response:

Market forces will continue to be the main driver in determining the future size and shape of NZ air cargo services, however the airports as landlords should be far more responsive in their landlord's role to understand the requirements of these key tenants (i.e. CTOs and forwarders) and to meet these needs at reasonable cost.

Question 32: What are the most appropriate measures of airport performance in international air freight? Can you assist the Commission by providing data that compares New Zealand airports against others?

Response:

The most appropriate measures are to be found in time taken and access to security arrangements for moving air cargo between CTOs' premises and the ramp where aircraft are positioned. Position and access for container storage is also an important measure. Airlines operate internationally and experience airports where the design and siting of cargo activities is superior to that pertaining in New Zealand.

Question 33: Are there opportunities to introduce or increase competition in the provision of air freight related services at airports? Would such competition lead to better outcomes?

Response:

There is currently competition between CTOs (Menzies and Air NZ) at Auckland and Christchurch Airports. A bar to another CTO starting up and further increasing the competitive pressures at Auckland would be the lack of a suitable site, the lack of volume and the high setting up cost.

There is competition between freight forwarders for the airline business. Some forwarders are located only in Auckland and some only in Christchurch, others have at least a branch in both locations. Because of limited destinations served directly from Christchurch, most of the 'Christchurch only' forwarders have an arrangement with an Auckland forwarder not having a branch there, to handle any requirements the other may have in their location.

Question 34: Is the existing and planned Commerce Commission regulation of airports sufficient to restrain monopoly pricing and induce an efficient level of investment? If not, what should change?

Response:

In a word the answer is "no". So long as airports have the power to set charges as they think fit and to seek maximum revenues by leasing areas out to parties whose main business is not to move passengers and air cargo the problems associated with the exercise by airports of their monopoly powers and maximisation of returns will continue.

Question 35: To what extent is the international air freight industry competitive?

Response:

The international air freight industry is one of the most competitive industries in the world.

Question 36: Are there specific air freight routes to or from NZ with low levels of competition? Is there evidence of over-pricing or poor service levels on these routes?

Response:

There are some air routes out of and into NZ where the competition between carriers is light or non-existent and this can result in higher freight rates. Be that as it may, the practice of trans-shipping and transferring cargo is so widespread and efficient that very often other non-direct ways of getting cargo to the desired destination exist.

Question 37: How do bilateral air services agreements affect the accessibility and efficiency of air freight services available to NZ exporters and importers?

Response:

NZ's open skies approach means that we have services which link (either directly or through hubs) to anywhere in the world.

Question 47: Do New Zealand Customs and biosecurity systems deliver the required outcomes efficiently? What initiatives might improve efficiency and effectiveness?

Response:

This is an area where airlines at the operational level see scope for considerable improvement. In this regard we are encouraged by the steps currently being taken by the New Zealand Customs Service and MAF under the JBMS umbrella to introduce the trade single window system.

We are however apprehensive at the prospect of costs being imposed on industry through two government agencies replacing their own inadequate ageing systems which needs to be done for them to undertake their statutory functions.

Question 49: Are there any measures that New Zealand could undertake to reduce the security related costs imposed on exporters and importers?

Response:

As will be evident from our response to Question 2, the ever mounting aviation security costs imposed on airlines and other parties in the supply chain are of very real concern, furthermore some of the requirements emanating from USA are putting New Zealand's air cargo exports at risk.

The New Zealand Government needs to put more resource into ensuring that the New Zealand security system for air cargo exports (Civil Aviation Rule 109) is of a very high

standard and that this is known and accepted by the rest of the world leading to no further need to meet the requirements of other States.

Question 61: Are the time costs associated with international air freight incorporated into current road infrastructure planning? To what extent should they be?

Response:

We agree that because of the relatively high value and vulnerability of air cargo the costs of delaying a truck travelling to or from an airport are higher than for a truck travelling to or from a seaport. A further factor to be taken into consideration is the critical cut off time for a flight which is around 3 hours before departure. A road delay could result in a flight being missed.

We also agree that road infrastructure planning has not had sufficient regard to this requirement. This applies off and on-airport.

If for example Auckland Airport had taken a reasonable approach to the lease/rental charges for forwarders and the provision of strategically sited space to encourage them to set up on-airport, the travelling distances, costs and times would have been significantly reduced.

Question 62: Do domestic air links work as an effective feeder for international air freight services? What could be improved?

Response:

In some cases yes, however few domestic aircraft can carry ULDs and so a full export container of say salmon from Christchurch to Auckland to join an international flight can only sensibly travel by road.

With an increase in the volume of air cargo and the number of full container loads, coupled with a continuing growth in domestic air passenger traffic this can change over time.

Question 66: To what extent do formal and informal alliances between airlines improve or detract from the efficiency of international air freight services? Are there opportunities to improve outcomes?

Response:

The aviation sector has an effective system for the movement of a cargo shipment by a number of carriers both within an alliance and across alliances. This together with the apportionment of payments due is achieved through IATA with a clearing house and a cargo system that runs in parallel to that used for passengers who may also use a variety of aircraft on a particular round the world trip.

Question 67: What measures might improve the overall system efficiency of the logistics chain for international air freight?

Response:

The gathering momentum for the introduction of e-freight with the accompanying replacement of the current need for hard copy documentation coupled with the trade single window concept whereby the needed information about a shipment is entered once into the system with the parties who require portions of the information having access to it and the government agency considerations and approvals to 'move' or requirements to 'hold' being coordinated will improve the overall system efficiency.

CONCLUSION:

The ACC is pleased to see that the NZPC is undertaking this investigation and appreciates the opportunity to make a submission.

As can be appreciated from the information which the NZPC has reproduced in the Issues Paper together with the further information we have provided in this submission there is a significant degree of competition along the whole of the air cargo supply chain from shipper through forwarder to the CTO including the road transport links.

There is also strong competition between airlines for the cargo that is available. This competition provides the pressure that results in cost efficiencies.

Where there is no competition which is the situation with airports and with the border agencies other measures are needed to achieve cost efficiencies and to improve productivity.

In our view the imposition of charges without constraints as is the case with airports and by way of levies as is the case with border agencies is not conducive to cost efficient operations.

Wayne Turkington

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31 August 2011