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# SUBMISSION

**To:** **The Productivity Commission regarding the Enquiry into International Freight Transport Services.**

**Email** **inquiries@productivity.govt.nz**

**From:** **ExportNZ**

**Date:** **31 August 2011**

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## 1. ExportNZ

ExportNZ is the only truly national industry association dedicated to representing the views of exporters. We have 7 regional export offices, including Auckland, Bay of Plenty, Waikato, Hawkes Bay, Wellington, Christchurch and Dunedin, working with the export members of EMA, Employers Chamber of Commerce Central, Canterbury Employers Chamber of Commerce and Otago Southland Employers Association.

In Wellington we are represented by Catherine Beard, Executive Director of ExportNZ and we have access to all the policy staff and support of BusinessNZ.

## 2. Overview

2.1 Philip McCann, Department of Economics at Waikato University wrote a paper called Economic geography, globalisation and New Zealand's productivity paradox. The reason he sees it as a paradox is that despite some good things happening in our economy it has not translated to better productivity.

2.2 He notes that while the macroeconomic and institutional characteristics of our economy rate relatively well in the OECD, as evidenced by our controlled inflation, relatively low unemployment rate, strong property rights, flexible labour market, transparent institutional system etc, our productivity has fallen behind other competitor countries since 1985.

2.3 McCann concludes that **geographical isolation** accounts for half of the 21% gap between New Zealand and the OECD average when it comes to productivity. The major advantage that more highly populated countries have is the widespread existence of economies of scale, assisted by large domestic markets and larger more diverse cities. The OECD suggests that Australia's scale more than compensates for the adverse effects of distance.

2.4 The research tends to suggest that those countries with large diverse cities allow firms of scale to be built and they have higher productivity, better management and are able to attract and keep the best and brightest employees. As an example of this, Auckland has the highest productivity and wages in New Zealand, due to its scale and **connectivity**, but on a global scale it is not even amongst the largest 70 urban agglomerations within the OECD.

2.5 Economic growth and globalisation over the last two decades has favoured large urban centres in almost every country. Cities dominated by a diverse range of knowledge sectors have outperformed cities that are highly specialised. Major cities benefit from increasing scale advantages associated with **being nodes in global airline and trade networks**. In addition, major cities attract high quality human capital migrants and exhibit the highest levels of productivity, innovation and entrepreneurship.

2.6 Given that we don't have cities of international scale it is doubly important for exporters that our domestic and international transport options are highly competitive and world leading, since this is our connection to our markets and to global supply chains. This is particularly important to our exporters as they battle a volatile exchange rate and increasing value of the NZ$.

2.7 McCann identified a range of issues that affect our productivity and a range of solutions. The ones relevant to this enquiry on international transport are;

- Increase the scale of Auckland-Hamilton-Tauranga triangular city-region (underpinned by infrastructure development)
- Real competition in domestic airfares, airports and ports – otherwise regions are penalised.
- Smaller markets are notorious for developing monopolies, so need to ensure transport and communications markets do not undermine competitiveness of the economy.

## 3. Efficiency/Productivity of Ports

3.1 ExportNZ is supportive of the report on the Ports Industry released by The Local Government Forum on 18 August 2010. Entitled Port Ownership and Performance: An assessment of the evidence, the study was undertaken by

Dr Brent Layton, a researcher and former director of the New Zealand Institute of Economic Research.

3.2 The report found that while there had been major improvements in the efficiency of New Zealand ports following reforms in the late 1980s and early '90s. (e.g. the corporatisation of the former harbour boards, partial listing of some port companies, and waterfront labour reforms) efficiency improvements in the industry appear to have stalled, with some evidence suggesting New Zealand ports may rank towards the bottom end of the ports of developed countries.

3.3 In addition, shipping lines that have experience of a wide range of international ports have told us anecdotally that the productivity of NZ ports is lagging behind that of other ports they deal with around the world and there is room for improvement.

3.4 Reforms in Australia, including the privatisation of most port operations, have seen the efficiency of Australian ports improve and exceed that of some major New Zealand ports.

3.5 Contrary to some views, the study finds that the industry's problems are not mainly an inadequate return on capital. Most ports have made positive economic returns, although there has been a sharp deterioration in the economic returns of Ports of Auckland, particularly since it was effectively nationalised by the Auckland Regional Council in 2005.

3.6 Rather, the study finds that the problems of local authority ownership are reflected mainly in the barriers to port rationalisation and the introduction of experienced international operators into the management of ports.

3.7 The study suggests four policy options for examination, namely,

- increased information disclosure
- contestability in container stevedoring where practical
- separation of the roles of port landlord and stevedoring services as in
- Australia, and
- divestment of shares in port companies to encourage more efficient operations and rationalisation.

The NZIER study's conclusions were consistent with the advice of the OECD in its last report on New Zealand.

A full copy of the report is available at the following link http://www.localgovtforum.org.nz/LinkClick.aspx?fileticket=AdyiDV1m6a8%3d&tabid=1539&mid=3017

In addition to citing the recommendations in the report above, we make the additional comments about Ports.

3.8 Port competition can be enhanced even while in local government ownership. It is our understanding that in many overseas jurisdictions, local government retains control over the port land, but puts the terminals out to competitive tender to independent and competitive operators and every few years the arrangement is reviewed and the market tested with a new tender.

3.9 Terminals should be able to be privately owned and operated and there should ideally be two of them competing at each port (even if one is local government owned and the other privately owned). Or if the throughput of the port is not sufficient to make two terminals economic, local government owners should be required to put terminal operation out to tender on a regular basis to ensure competitive performance.

3.10 At present the Ports are natural monopolies, not dissimilar to electricity companies owning lines companies and being able to cross subsidise and keep the competition out with loss leading behaviour.

3.11 Also where ports have a natural monopoly in a geographic area for things like bulk logs and fuel, as is the case in Tauranga, what is to prevent the Port making excessive profits on those captive exporters and then using that to cross subsidise the cost of training imports into the Auckland market? A great balance of imports and exports for the Tauranga Port (good efficiency on one hand), but what is to stop the imports being cross subsidised by monopoly rents on log and fuel exporters?

3.12 The provision in NZ ports for “common usage area”, usually for break bulk cargo, like logs does not provide any competitive pressure because they do not have a terminal.

3.13 In addition, if Ports are incentivised to create scarcity of bulk storage space close to the port to keep rates up, large log traders that have long term lease rights may not be incentivised to seek changes to that arrangement either, putting smaller forest growers and log traders at a disadvantage. Log volumes are expected to double in the next 14 years, and logs have been a big exporter earner for NZ, so this is an important issue.

3.14 If local government is the Port landlord, terminal ownership should be competitive, stevedoring should be competitive and even tug operations should be contestable and privately owned.

3.15 It is our belief that privately owned terminals could lead to more coastal shipping as a way to move goods around the coast (privately owned terminals would not just be focussed on international trade but domestic as well), which would provide good competitive pressure to road and rail. We would also ask

the question whether Rail is hard to compete with due to government ownership and significant government investment. Being government owned, can rail afford to engage in loss leading behaviour until it extinguishes competition?

3.16 We think it should also be investigated whether common ownership of Ports could bring about better productivity, where their import/export profile was complimentary. For example Wellington Port is a larger importer than exporter and Nelson Port is a large exporter than importer. Common ownership would mean better utilisation of empty containers and better productivity as a result.

3.17 From the shipping line point of view, rationalisation of ports is not necessarily a good thing if it reduces the competition between the ports, so fewer deeper ports have their upsides (can accommodate larger ships and get better economies of scale) and their potential downsides (loss of competitive pressure amongst ports allows for rent seeking behaviour).

## 4. Shipping Line Conferences

4.1 One of the benefits to exporters of Shipping Line Conferences is that the shipping lines cooperate on dispatch of ships, which means we get more frequency of service than we might otherwise get in NZ and a better utilisation of space. Frequency of service is important to exporters who are trying to get goods to customers in a timely fashion and particularly for perishable goods that have a limited shelf life.

4.2 On the negative side of the ledger, the consolidation of capacity after the global financial crisis could mean that shipping lines have more market power than was previously the case.

4.3 It is our understanding that Canada and the EU don't allow shipping line conferences. While code sharing is beneficial to NZ Exporters, we still need competitive pressure to apply on routes, capacity and price.

4.4 The Shipping Act of 1987 should be updated and we recommend that enforcement and penalties for breaches of the Act could be strengthened to be more meaningful and a proper deterrent to anti-competitive behaviour. We submit that it may need to be made easier to make a complaint under the Act – this should be investigated. We also submit that there would be added scrutiny if the Commerce Act applied, and any agreements were required to be published.

4.5 We think there is merit in aiming to be consistent with the approach of other countries and in particular with the Australian approach if we are to be increasingly harmonised, but this needs to be balanced against the benefits to frequency of service for a country that is a geographic outlier.

## 5. Slow Steaming

5.1 We are aware that shipping lines are keen on slow steaming as a cost saving measure (and to reduce emissions) but this poses big challenges to NZ exports that are time sensitive (e.g. chilled meat trade and other perishables). More time to market means less shelf time and could compromise the viability of promising new exports for New Zealand. Competition amongst shipping lines is vital to ensure that exporters have choice in this regard.

## 6. Road, Rail, Shipping, Air Transport

6.1 We think the government should have a national transport strategy. The government at central or local government level is heavily involved in making transport investment decisions (whether into road, rail, ports or airports or airlines) and to us it does not seem that there is any strategic overview or joined up strategy going on.

- What are the impacts in over-investment in rail and under-investment in roads or vice-versa?
- What are the impacts of natural monopolies through local or central government ownership of key parts of the transport infrastructure and networks (ports, airports, railways, roads)?
- How do we get better service for South Island exporters and in the less populated regions where there is less competitive pressure due to smaller populations?
- How important is it to be investing in infrastructure such as super- fast broadband that can assist in the export of services and give us better connectivity to overseas markets?

6.2 In our view we need an holistic and strategic approach to these questions with an overarching transport strategy. We now have an electricity market that is supposed to deliver competitive prices and allow the market to pick the next best investment in new generation, in terms of type of generation, location of generation, timing of new generation etc. That has not happened in infrastructure planning as evidenced by the catch up now going on with roads and rail and lower productivity has been the result.

## 7. ETS

As pointed out in the issues paper, liquid fuel is a significant cost in the transport supply chain. New Zealand has an Emissions Trading Scheme which puts a carbon price on fuel. The challenge with the ETS is that there is no sign yet that a deep and liquid carbon market is developing that will span all our global competitors. Different countries are using different strategies to deal with carbon emissions and NZ

exporters could end up paying many times over for emissions related to fuel. In addition the price of carbon gets set by political decisions (in many countries) rather than the “least cost of carbon” as determined by a global and competitive emissions trading market. NZ policy makers need to keep this on their radar and be sensitive to the additional costs our exporters will face if this issue is not closely managed.

## 8. Points of Principle

- Efforts should be made to ensure all parts of the logistics supply chain have competition to ensure least cost and best service
- This includes competition between road, rail and coastal shipping and international shipping and air freight.
- Care should be taken not to diminish the viability of coastal shipping (which keeps competitive pressure on domestic road, rail and air) through port rationalisation. If ports are to be rationalised for other reasons, policy thought should be given to the lessening of coastal shipping viability or competitive pressure on ports to perform from the point of the shipping lines.

## 9. Comments from Exporters

9.1 Our general feeling is that NZ is largely at the mercy of the shipping companies, and greatly influenced by world economies. In times of recession the shipping companies reduce sailings and take vessels out of service. The resulting capacity reduction can and does lead to delays in getting containers to destination, especially where trans-ship ports are involved.

Examples: our first shipment to UK got parked up in Singapore for 6 weeks, 2 recent shipments that trans-shipped through Australia (1 through Oceanbridge, 1 through Rohlig). Both containers were bumped off the vessel, and neither freight forwarder was aware of this until I started chasing delivery.

Shipping delays of up to 2 weeks (or our imported components containers) are now sufficiently frequent that we carry extra inventory to allow for this. Any delays are usually only advised late in the shipment, meaning if we are caught short there is not much time to scramble to get more stock in place.

Paperwork requirements can sometimes be a burden, especially when exporting to a new customer for the first time. The list of fees over and above the actual freight charges is long and very expensive. A quote we have in for a 20’ FCL from Melbourne to Port Chalmers shows the freight cost at $719.16. The port fee at Melbourne is $586.45, and at Port Chalmers is $385.00, total fees over and above actual carriage is NZ$971.45. The other fees are no better. Dunedin, Exporter

9.2 Advisory from Maersk below. It typifies the problems faced by small and medium sized exporters up against a cartel of shipping companies who can arbitrarily place a surcharge during the peak season.

"Member lines of the Asia New Zealand Discussion Agreement (ANZDA) have recently agreed to adopt the following Northbound PSS (Peak Season Surcharge):

- **PSS of US$150/TEU and US$300/FEU, effective from 15 February 2012** The above PSS will be applicable to all dry and refrigerated shipments originating in New Zealand to ports and points in **Singapore, Malaysia, Thailand, Philippines, Vietnam, Indonesia, Japan, Korea, Taiwan, Hong Kong and China.**

The application of PSS (Peak Season Surcharge) is necessary to assist carriers to recover in part the extra cost incurred due to upsurge of cargo movement. The PSS will be applicable until further notice."

9.3 DHL quote for a smallish exporter shipping (in this example) 1 pallet of honey approx 1 tonne to the USA. They ship a wide range of specialist food products but in small quantities to quite a number of markets. Note the high cost of the documentation/compliance fees ($235) compared to the actual freight charges ($173).

9.4 **Smaller Exporters Nervous about Kotahi (large Exporters group)**

As discussed above, competition is the key to good service and reasonable prices. There is concern from small to medium exporters about the new alliance of large exporters which will reportedly cover one third of all containers and what it will mean for the rest of the market.

Will the alliance reduce the incentive for the top shipping lines to continue to come to compete for business in NZ due to the most significant volume and value being concentrated through one purchaser or will Kotahi result in a more competitive /efficient environment which flows through to the benefit the other two thirds of the container market?

Ends: