

NEW ZEALAND AIR CARGO COUNCIL

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SUBMISSION TO NEW ZEALAND PRODUCTIVITY COMMISSION ON DRAFT REPORT ON INTERNATIONAL FREIGHT TRANSPORT SERVICES INQUIRY FROM THE 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 (CTOs)).

In addition other entities whose activities may have considerable impact on the cargo operation of the airlines 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 9 February 2012 the Council gave consideration to the New Zealand Productivity Commission’s (NZPC’s) draft report on the International Freight Transport Services Inquiry and in particular to the points the ACC made in its submission of 31 August and the response that the NZPC has made to these points in the draft report.

As we advised in our 31 August submission 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 New Zealand 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.

The BARNZ submission will be covering the economic and regulatory aspects of the Draft NZPC Report while this ACC submission will focus more on the practical side of air cargo movement and the well established systems which operate internationally.

AIRPORT/SEAPORTS DIFFERENCES:

The NZPC Issues Document implied that airports and seaports played similar roles. In our 31 August submission we made the point that airports play a different role to seaports. Airports are essentially landowners/lessors, whereas seaports become involved operationally in the movement of cargo. We also made it clear that there is already active competition at the CTO level and the airline sector does not want airports to have a greater operational role

along the lines which seaports have. The airline/CTO involvement with airports leaves us in no doubt that any increase in airport operational involvement in the handling and processing of air cargo will result in increased costs which will be to the detriment of New Zealand exports and imports.

Comment:

The NZPC January 2012 draft report shows an understanding of the way that the air freight system operates including the role of CTOs. It acknowledges the importance of competition and does not advocate a greater role for airports in the handling and processing of air cargo. We welcome this appreciation.

AIRPORT CHARGING:

ACC made the point in our 31 August submission that so long as airports have the power to set charges as they think fit this coupled with their monopoly position will result in them continuing to overcharge.

Comment:

We are concerned that the draft report does not appear to grasp the point that the decision on whether or not to ship cargo by air is very dependent on the freight rate and associated costs. There is high price sensitivity. Significant quantities of fresh food and perishable commodities which can only move by air are not being exported because of costs. The portion of landing charges in terms of total airline costs although relatively small when compared with other costs such as fuel is one of the only manageable costs. We do not share the Productivity Commission's optimism that the Commerce Commission involvement in terms of the amended legislation will be sufficient to curtail the monopoly powers and the overcharging tendencies of the airports.

JBMS/TRADE SINGLE WINDOW COSTS:

The ACC included in our 31 August submission a statement that while airlines and CTOs appreciate the potential advantages that will flow from the move to a TSW we are apprehensive at the prospect of costs flowing from this large investment being imposed on industry when essentially it is a case of two government agencies replacing their own inadequate ageing systems which needs to be done for them to undertake their statutory functions.

Comment:

We appreciated the section included in the NZPC draft report on cost recovery for the JBMS and in particular the acknowledgement of the public good aspects of the work of the border agencies which justifies crown funding for this project and its ongoing operation. We point out that the work done by Customs (inbound and outbound) and MAF(inbound)with respect to cargo and passengers also contains a large element of public good. The airlines pick up the full cost of the Aviation Security Service and should not also be expected to cover costs of the other border agencies.

We have no disagreement with the NZPCs identification of the parties who should be meeting any industry share of border agency cargo processing costs but point out that it would be helpful for the NZPC to provide their view of the percentage of public good involved in border controls of inbound and outbound cargo.

AVIATION SECURITY IMPOSITIONS FROM OVERSEAS:

In our 31 August submission ACC pointed out the increasing cost implications and threat to air cargo through increased security requirements imposed by other countries. We identified the need for the government to put adequate resource into ensuring that export supply chains are secure here in New Zealand and to convince other countries that no further measures are needed by them for air cargo which has been sourced in New Zealand.

Comment:

We noted the inclusion in the draft report on this matter and that there was no specific finding or recommendation.

In looking back on our 31 August submission we wonder whether we made it sufficiently clear that perishable food exports are being put at real risk by the US TSA's requirements which have again surfaced for 100% xraying of all air cargo bound for or through the US from December 2012. To achieve this requirement containers of e.g. salmon packed in the South Island and express freighted to Auckland for export on an international aircraft would need to be broken down, xrayed and re-packed which would not only be very expensive but would also affect the integrity of the food safety supply chain. Exports such as this are being put at serious risk.

The need for the New Zealand Government to convince the US Government that New Zealand has a secure export supply chain for air cargo and that no further requirements should be imposed from abroad is an urgent and pressing one.

AIRPORTS FOCUS ON PASSENGERS NOT CARGO:

In the ACCs 31 August submission we pointed out that airport companies in their role as landlords are not understanding of or supportive of air cargo needs particularly with respect to access and security. With their monopoly status and the need for CTOs to be positioned adjacent to airside there is a lack of incentive for airports to focus on the access and security aspects.

Comment:

The NZPC draft report includes the airline and CTO comments which highlight the lack of support for and understanding of air cargo operations by airports in their role as landlords but appears to accept that air cargo is bound to be of secondary importance to passenger traffic.

Be that as it may, we repeat the point that several potential export air cargoes are not moving because of costs. This is to the detriment of New Zealand. There is scope for streamlining of systems, reduction in the requirements and reduction in costs through appropriate supportive measures by airports in their role as landlords. The airports (particularly Auckland) need to make a major effort to meet airline needs with respect to the design and provision of access to facilitate the smooth and secure movement of air cargo. The access and security aspects referred to here are issues outside of the areas leased by CTOs and therefore are outside of the CTOs/Airlines control.

EPISODES OF TRUCK QUEUING AT CTO PREMISES:

The NZPC January 2012 draft report commented in F5.1 that “Episodes of significant truck queuing at Auckland Airport suggest poor coordination, leading to low operational efficiency. There is scope for market participants to address this issue through coordination mechanisms such as a slot booking system with variable charges.”

Comment:

The situation with truck pickups from CTOs premises is that the majority of forwarders use contract trucking ie only a relatively few forwarders use their own trucks to pick up the cargo that needs to be transferred to their premises. This is efficient in terms of utilisation of truck capacity but it causes congestion at the CTOs premises because the contract truck drivers are picking up large numbers of shipments which are destined for many different forwarders. Handling multiple clearances and loading several shipments for different forwarders onto the one truck takes time. It is a very different situation to that at the seaports where a truck is going to the port to pick up a single container which lends itself to a slot allocation process. The CTOs have tried to encourage pickups during the day and in particular in the afternoons or early evenings for cargo which has arrived on the mid-day or afternoon flights but this does not suit many forwarders who want to receive the cargo in the morning. Hence the early morning queues of the contract trucks and the frustrations felt by forwarders undertaking their own pickups.

PROFITABLE EFFICIENT AIRPORTS:

The NZPC recommendation 10.1 is that the objectives for airport companies should be lined up with those for State Owned Enterprises, i.e. to be as profitable and efficient as comparable businesses that are privately owned.

Comment:

Our concern with this is simply tied in with the fact that the airports are essentially monopolies and there is no effective control over their pricing whereas businesses face competition or a situation where competition can be established which provides an effective control over pricing.

CONCLUSION:

Costs are a critical factor in airline operations. The fact of the matter is that aircraft are very mobile assets and if costs increase to the point where loadings (passengers and/or cargo) and returns are adversely affected, services will cease and the aircraft will be deployed to a different service. A recent specific example is the decision for AirAsia X (a Malaysian airline that currently provides services to New Zealand) to announce withdrawal from its European services following the imposition of the EU carbon tax on aircraft. Increased costs not only put the movement of specific commodities at risk they can also result in the complete withdrawal of services.

The ACC accepts the need for improved productivity along the air cargo supply chain. Given the strong competition which exists between airlines for cargo it is clear that improved supply chain productivity would result in more cargo moving.

We see this improvement in productivity being achieved by :

- Increased use of technology including the introduction of the Trade Single Window
- Reduction in the manageable costs including Government Agency and airport costs
- Airport landlord commitment (particularly at Auckland) to the positioning of CTO facilities, access to sites and security between CTOs premises and airside to meet airline and CTOs needs
- A focus by CAA and MoT on ensuring that the air cargo supply chain in New Zealand is secure and on ensuring that other countries are convinced of this and that they do not impose further requirements on New Zealand

Wayne Turkington
Chairman Air Cargo Council

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