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Submission on: International Freight Transport Services Inquiry

From: Federated Farmers of New Zealand

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SUBMISSION TO THE NEW ZEALAND PRODUCTIVITY COMMISSION INTERNATIONAL FREIGHT TRANSPORT SERVICES

1. INTRODUCTION

- 1.1 Federated Farmers welcomes the opportunity to submit to the New Zealand Productivity Commission's Issues Paper on International Freight Transport Services.
- 1.2 Freight costs are a key component of international trade. This is particularly so for New Zealand which is the most remote advanced economy in the world in terms of average distance from markets. If international freight costs are reduced then trade will be enhanced, the economy can be more productive and New Zealanders more prosperous.
- 1.3 The timeliness and reliability of shipping services is also very important for agriculture given New Zealand's distance from markets and the time-sensitive nature of a significant proportion of our food exports in particular.
- 1.4 The vast bulk of New Zealand's agricultural production is exported – around 95% of dairy, 93% of lamb, and 82% of beef. This makes trade and the costs associated with trade (such as freight) of great importance to farmers. Federated Farmers therefore thinks it appropriate for this issue to be one of the first considered by the Productivity Commission.
- 1.5 This submission will seek to answer the questions posed in the Issues Paper. We will also consider submitting on the Productivity Commission's draft report once it is released for comment.

2. QUESTIONS

- Q1. Are there important issues that may be overlooked as a result of adopting an economic efficiency perspective for this inquiry?

Federated Farmers supports the taking of an economic efficiency perspective for this inquiry for the reasons set out in section 2.2 of the Issues Paper.

- Q2. Is the framework described in section 3.2 appropriate for this inquiry? Are there any important issues that might be missed?

Federated Farmers supports the inquiry focusing on the three proposed efficiency perspectives (efficiency of individual components, efficiency at the interface between components, and efficiency of the whole logistics chain).

- Q3. Which components and component interfaces warrant greater attention? What is the evidence that they are inefficient? What contribution could changes make to an improvement of the overall efficiency of the freight system?

Federated Farmers agrees with the proposed emphasis on those areas where there is little or no effective competition.

We agree that domestic transport, particularly road transport, is competitive.

It is timely to look into the competitiveness of overseas shipping and whether the benefits of collaboration agreements exceed the costs. Stevedoring and ports merit particular attention as these are where it is most likely that gains can be made through policy and/or legislative changes.

Federated Farmers accepts that biosecurity and customs processes should be streamlined and costs should be reduced. However, New Zealand relies more than any other country on stringent biosecurity to safeguard export industries and the economy. We would strongly oppose any moves to weaken biosecurity standards and controls.

Q4. What environmental consideration should fall within the scope of the inquiry? What issues are of particular importance?

Federated Farmers acknowledges that freight transport is fuel-intensive but the inquiry needs to consider research which shows that New Zealand food products exported and sold in the UK and Europe are much less energy intensive than locally produced food, even when considering the long distances from export markets¹.

A significant concern for New Zealand agricultural exporters has been the introduction of 'slow steaming' over the past two years. Slow steaming is when ships are instructed to sail at a slower speed in order to reduce fuel consumption. The Meat Industry Association advises us that Maersk's decision to introduce slow steaming resulted in an increase in transit time from Port Chalmers to Zeebrugge (the major entry port for chilled product into continental Europe) from 31 to 38 days. Slow steaming is a concern because it reduces the shelf life in the market for high value chilled products and the shorter the shelf life the less leverage the meat industry has with customers in the market².

Chilled products command a premium over frozen and as a result the meat industry has been steadily developing the chilled trade. However, slow steaming will make it difficult to further develop this trade and it is also concerning that the European Commission is contemplating a mandatory speed reduction for all ships entering European Union ports³.

Federated Farmers also believes that the inquiry should consider the costs imposed on the supply chain by the Emissions Trading Scheme and impact of the ETS on New Zealand's international competitiveness given that most of our trading partners have no price on carbon and are unlikely to have such a price for the foreseeable future.

We would also be very concerned if the European Union was to include international aviation and/or international shipping services into its ETS.

¹ For example, see *Comparative Energy and Greenhouse Gas Emissions of New Zealand's and the UK's Dairy Industry*, Lincoln University, July 2007; and *A Greenhouse Gas Footprint Study for Exported New Zealand Lamb*, Agresearch, March 2010.

² See: <http://www.stuff.co.nz/business/industries/4521207/Slow-boats-have-exporters-steaming>

³ See: <http://www.safety4sea.com/page/5204/3/european-union-to-take-measures-for-reducing-greenhouse-gas-emissions>

- Q5. To what extent is there effective competition for customers between New Zealand ports? Has this led to lower prices and incentives for productivity improvements?

Federated Farmers agrees that New Zealand's ports perform different functions with geographic monopoly over bulk cargo sourced from or destined to the port's hinterland. Geographic monopoly limits competition between the ports, although there is less of a monopoly for container trade and efficient land transport can also offset any monopoly.

Overseas shipping operators can and do swap port calls and their ability to gain price concessions from port companies to attract or retain business is an indication that there is some competition between ports.

Despite some competition between ports (and perhaps some price cuts) there does not appear to have been a pay-off in terms of improved productivity. Although data on port productivity is patchy, most New Zealand ports appear to have low productivity compared to overseas ports. According to NZIER some port companies that have made concessions to attract or retain shipping services may not make a full return on its capital investments⁴.

- Q6. What are the most appropriate and reliable data available to measure port efficiency and productivity in container handling?
- Q7. What are the most appropriate and reliable data available to measure port efficiency and productivity in handling bulk cargo?

There are many international measures for port performance that could be drawn upon. Closest to home, the Australian Department of Infrastructure and Transport's Waterline publication lists a large number of measures across landside performance indicators, stevedoring productivity, port interface cost index, ship visits, etc. In comparison there is a real dearth of New Zealand information.

- Q8. Which overseas ports are appropriate comparators for New Zealand port performance? On what basis should this selection be made?

New Zealand should aspire for its ports to be among the most productive. We should therefore benchmark our ports against the top performing ports.

In terms of geographical comparators we should focus on the ports of our major trading partners, particularly Australia (but we should be able to do better than Australia).

- Q9. Did port productivity improve during the 1990s? What were the drivers of those improvements?

There is a paucity of comparative data on port performance but Federated Farmers' understanding is that port productivity did improve in the 1990s. According to NZIER "Ship turnaround times dropped, loading rates rose, truck waiting times fell, and labour productivity increased"⁵.

⁴ *Port Performance and Ownership – an assessment of the evidence*, NZIER, August 2010, pg. 34.

⁵ *Ibid*, page 13.

Changes to employment law were very important. In 1989 the Waterfront Industry Commission (which had employed all waterside workers) was abolished and waterside workers became employed by the individual port companies. This was followed by the Employment Contracts Act 1991 which enabled significant changes in port workplace practices to be made.

The Port Companies Act 1988 corporatised the ports and required them to operate as successful businesses. Over the next few years a number of port companies' local government owners chose to partially privatise their holdings. This reform helped make ports more commercially-driven and more motivated to seek productivity improvements.

Q10. Did the rate of productivity improvements flatten during the 2000s? Why? What might reinvigorate performance improvement?

There is a paucity of comparative data on port performance, but Federated Farmers' understanding is that port productivity did flatten during the 2000s and these concerns are confirmed by NZIER which found that there has been "a deterioration in the relative performance of New Zealand container ports compared with Australian ports in recent years".⁶

During the 2000s there was a trend of diminishing private sector investment in port companies (most evident in the removal of Ports of Auckland from the stock exchange and reversion to 100% local authority ownership). This has been coupled by what appears to have been a reduced appetite from port companies' local authority owners to demand significant efficiency and productivity gains. The reason for this lack of appetite is likely to be political rather than economic.

As a result, port companies seem prepared to concede a lower level of performance (and ultimately returns on their investments) in return for:

- Keeping port operations in the council's geographic area (i.e., resisting rationalisation);*
- Strengthening or retaining local authority control (e.g., Ports of Auckland example above, and the abortive deal for Hong Kong based Hutchison Port Holdings to operate Lyttelton Port operations); or*
- Preserving industrial harmony.*

With regard to the latter point on industrial relations, the repeal of the Employment Contracts Act in 2000 and subsequent creeping changes to the Employment Relations Act are likely to have strengthened the hand of unions relative to the 1990s and could have slowed further improvements to work practices.

However, without more and better data on port performance across a range of productivity measures it is difficult to answer this question definitively.

Q11. What is the most appropriate way to measure port profitability? What is an appropriate rate of return on assets and equity?

As mentioned in the Issues Paper there is debate on how to measure port profitability and what rate of return to use. Federated Farmers is not in a

⁶ Ibid, page 18.

good position to answer either of these questions although we note that NZIER prefers to use aggregate economic returns calculated using historical cost (rather than book value or accounting profit)⁷.

- Q12. Is there evidence of a systemic problem of low port profitability? Or, conversely, excessive profitability?

The answer to this question depends on the answers to Q11 above. Without knowing the answers to Q11, Federated Farmers is not in a good position to answer this question. NZIER's view (based on its analysis of economic returns using historical cost) is that port companies in general have made positive economic returns over time on their past investments. However, analysing book value economic returns or accounting profits would indicate a rather different picture⁸.

- Q13. What levels of investment have ports undertaken in recent years? Are they consistent with accessible and efficient services to exporters and importers? Is there an over or an under investment problem in ports?

Again, this question is the subject of debate with some saying that there has been overinvestment while others (including NZIER) saying that investments in new capacity have been relatively modest⁹. Perhaps a better question is whether the investments made have been productive and resulted in better performance.

- Q14. Does New Zealand have too many ports for a small country? If so, what barriers are inhibiting rationalisation?

New Zealand probably has the right number of ports given the country's geography, topography, population distribution, the sources of exports, and the destination of imports. Whether they should all be export/import ports is another matter. In theory New Zealand could sustain a much smaller number of export/import ports serviced by overseas ships (some of which might be new generation larger ships) with these major ports in turn serviced by coastal shipping (i.e., hub and spoke ports) or by rail and road transport.

There are likely to be a number of reasons why this reorganisation has not happened. Port company owners seem unwilling to allow their ports to be 'downgraded' through rationalisation while there is also a lack of effective alternatives to overseas ship calls due to cost and service shortcomings with coastal shipping and rail.

- Q15. Has local authority ownership of majority stakes in New Zealand's commercial ports inhibited, enhanced, or been neutral for the development of a more efficient and productive port sector?

For the reasons discussed under Q10 we believe that local authority majority ownership (and in many cases 100% ownership) has inhibited the development of a more efficient and productive port sector.

⁷ Ibid, page 43.

⁸ Ibid, pages 34-43.

⁹ Ibid, pages 44-46.

This view is shared by NZIER which has stated that “local authority ownership has militated against the rationalisation of port activities in New Zealand and the introduction of experienced international operators into the management of ports”.¹⁰

It is perhaps no coincidence that New Zealand’s best performing port (Port of Tauranga) is also the port with the highest proportion of private ownership (45%).

- Q16. What changes in governance, regulations or ownership would offer the best means to improve port performance for exporters and importers?

Federated Farmers believes that port companies should be encouraged to operate more commercially. We believe that this can be achieved by embarking on further port reform and changes to employment law.

With regard to port reform, we believe that local authorities should be encouraged to partially sell down their holdings in port companies, to at least the level of Port of Tauranga (55%). Partial privatisation should dilute the influence of parochialism and other political considerations and help make ports more commercially focused, while retaining majority local and public ownership.

Reforms could also be considered to encourage port companies to contract out port operations (i.e., the landlord port model) or enable competition for services such as stevedoring (as takes place at Port of Tauranga).

Although the present government has made some modest changes to the Employment Relations Act there are still things that could be done to make the labour market more flexible and enable changes to work practices – for example, by ending the monopoly unions have on collective bargaining.

- Q17. How much variation in the efficiency and productivity performance of ports is explained by the way that within-port activities are organised? Do ‘contracting out’ and ‘landlord’ models offer a way to increase competition for the benefit of exporters and importers.

Considering that Port of Tauranga appears to be a significantly better performer than other New Zealand ports, the way within-port activities are organised could be a significant factor. Federated Farmers would support initiatives such as contracting out and landlord port models.

- Q18. To what extent do inflexible labour practices and difficulties in employer-union relationships remain an obstacle to lifting efficiency and productivity at New Zealand ports?

Federated Farmers believes that real productivity improvement will not be possible without significant changes in work practices, including contracting out within-port activities. One of the reasons most port companies have declined to move in that direction is fear of industrial disputes. We are aware that Port of Tauranga has been put under pressure by stevedoring and maritime unions to put an end to competition for stevedoring.

¹⁰ Ibid, page 48.

- Q19. From the perspective of New Zealand importers and exporters, to what extent is the international shipping industry competitive?

New Zealand is a tiny proportion of global trade and its remoteness means it is located well away from main shipping routes. These factors would tend toward making the New Zealand trade relatively less competitive.

However, as stated in the Issues Paper, New Zealand is served by six of the top ten container lines and any withdrawal of services is usually quickly filled by existing or new operators. It is probable that the presence of large shippers such as Fonterra and the major meat companies means there are profitable opportunities for international shipping from serving New Zealand that might not otherwise be the case in their absence.

- Q20. To what extent have collaboration agreements between international sea carriers been helpful or harmful to the interests of New Zealand importers and exporters?

As mentioned in the Issues Paper, the economics of freight operations means that at some stages in the supply chain there will be a small number of competitors. For a country like New Zealand, which is small and remote, international shipping is a classic example of this problem. It is therefore likely that collaboration agreements are necessary to guarantee levels of service to and from countries like New Zealand at reasonable cost. On balance collaboration agreements have probably been helpful to importers and exporters, but given that other countries are scrutinising and questioning such agreements it is timely and reasonable for New Zealand to do so.

- Q21. What is the basis for the different regulatory treatment of imports and exports under the Commerce Act and Shipping Act? Is this differential treatment justified?

Federated Farmers is unable to answer this question – we don't know.

- Q22. Have any actions (foreshadowed or actual) been undertaken under the Shipping Act 1987? Does the Act deter unfair practice?

Federated Farmers is unaware of any actions. The absence of actions might mean that there have been no unfair practices (which might mean the Act could be a deterrent) or it might be that the hurdle for 'unfair practices' is too high (in which case the Act might not be a sufficient deterrent).

- Q23. Would the Commerce Commission be better placed than the Minister of Transport to oversee the regulation of international shipping services?

The Commerce Commission is the logical agency for competition regulation. As well as its generic function it also regulates a number of specific industries including electricity, gas pipelines, airports, and telecommunications. Compared to the Ministry of Transport, the Commerce Commission might have more resources or expertise to devote to competition in international shipping. On the other hand, there might be good reasons for the Ministry to be the responsible agency (e.g., specific expertise in shipping matters). Either way, it would be useful to consider this issue further.

- Q24. To what extent do the current regulatory and competition regimes that affect international sea freight transport services work well or not for New Zealand exporters and importers?

As mentioned in the answer to Q20, a degree of collaboration between shipping companies is likely to have been necessary to ensure levels of service to and from New Zealand at reasonable cost. However, Federated Farmers is unsure whether the current regulatory and competition regimes have struck the right balance between competition and collaboration.

- Q25. How do international shipping conferences permitted under the Shipping Act 1987 affect the accessibility and efficiency of sea freight services available to New Zealand exporters and importers? How strong or weak is the case for the exemption of conferences from the competition provisions of the Commerce Act?

As mentioned in the answer to Q20, a degree of collaboration between shipping companies is likely to have been necessary to ensure levels of service to and from New Zealand at reasonable cost. However, it would be useful to consider whether certain types of collaboration agreement (such as shipping conferences) are helpful or harmful methods of collaboration. Requiring registration and/or public release of agreements might be a useful step in preventing their misuse. As the saying goes 'sunlight is the best disinfectant'.

- Q26. What lessons can New Zealand learn from the different ways that competition law and regulators in other jurisdictions deal with international sea freight services?

New Zealand should always seek to adopt best practice in regulation. That said, there will occasionally be issues specific to New Zealand that mean that what might work well in Europe, the US, or even Australia might not work as well here. With regard to international shipping, New Zealand's small share of world trade and its remoteness might mean that prohibiting collaboration agreements would compromise level of service and/or impose higher costs on exporters and importers. It is a tricky balancing act and one that needs careful consideration.

Q27-Q45

Questions 27 to 45 relate to airports and air services. Very little agricultural product is transported by air. We therefore have no specific comment to make on airports and air services although our comments with relation to ports and shipping services might be relevant for airports and air services.

- Q46. What are the typical customs and biosecurity costs faced by exporters and importers? How are these costs broken down? Is there scope to reduce them?

The main costs for agricultural importers and exporters within New Zealand take the form of such items as customs and excise charges, the issuing of phytosanitary e-certificates, ACVM charges, farm machinery importation charges, container inspection costs and personal goods inspection. The costs are administered by both the Ministry of Agriculture and Forestry (MAF) and Customs.

The development of the Joint Border Management System (JBMS) is seen as the main initiative to reduce import and export costs. A system that allows the sharing of processes, data and technology between MAF and Customs should create a more efficient lower-cost system, which is welcomed if properly implemented. As with any new system, it is important that consistency in meeting end goals is applied, as one of the reasons for increasing border clearance costs and the current cost under recovery is the inconsistent application of chargers from the government agencies.

- Q47. Do New Zealand's customs and biosecurity systems deliver the required outcomes efficiently? What initiatives might improve efficiency and effectiveness?

On an international basis the New Zealand border systems are viewed as out dated, with some of the current computer clearance processes being in the vicinity of 10 to 15 years old. The outdated technology often results in slow goods clearance and places a greater emphasises on physical processes.

The JBMS will provide Customs and MAF with modern technology to:

- receive and process enhanced electronic cargo and passenger information;*
- simplify and better manage border clearance processes for trade and travel;*
- target high-risk and facilitate low-risk people, goods, and craft;*
- enhance linkages to other government agency systems;*
- improve coordination of resources across agencies; and*
- contribute to improved logistics management in the supply chain*

The JBMS is timely and any Government initiative aimed at reducing taxpayer funded administration costs without a loss in technical robustness or efficacy would be supported by Federated Farmers.

If, however, there is any risk of biosecurity slippage from the JBMS then Federated Farmers proposes that this is counteracted by affected agencies prior to the initiative being implemented. Biosecurity is a major concern to our members and any reduction or compromise to the current inspection regimes to save money or time would not be supported by Federated Farmers.

- Q48. Does the World Bank analysis fit with the experience of importers and exporters? What opportunities are there to eliminate and/or streamline documents? Would this make a material difference in the total cost or speed of the logistics chain?

Federated Farmers does not have direct involvement within the logistics chain so we are not able to answer this question.

- Q49. Are there any measures that New Zealand could undertake to reduce the security-related costs imposed on exporters and importers?

Exported goods from New Zealand are viewed generally as a low security risk, with MAF requirements providing a very high level of security. There is often duplication from Customs on exported goods and having smarter information sharing between agencies should assist in reducing compliance costs. This needs to be progressed.

Federated Farmers is also concerned about major export markets (United States and European Union in particular) introducing security-related requirements that have impacted on international trade. For example, the United States' Importer Security Filing requirements require advance notification of shipments, meaning that in practice containers have to be loaded early, so increasing transit times.

We believe New Zealand border agencies should work more proactively to get greater recognition by overseas agencies of the low risk of New Zealand cargo and the effectiveness of New Zealand's security processes.

From an importation point of view Federated Farmers remains opposed to a reduction in border security costs unless our clearance systems remain at a standard where there is no reduction to our current security measures. An imported freight item such as a shipping container poses considerable biosecurity risk to New Zealand and we are of the opinion that the importer of the container should be charged accordingly to reduce or annul any identified risks.

An importer is rarely prosecuted or fined when a biosecurity incursion occurs and in most cases the affected industry is wrongly left to cover the costs. As the importers are creating the risk then it is essential that they should cover the cost of that risk, even to the point of providing funding towards readiness and response activities.

Therefore, Federated Farmers proposes that instead of reducing charges to importers of sea containers and other imported products, charges should if anything be increased. This would enable MAF border inspection services to be enhanced (and paid for by the exacerbators), with any surplus funds used to cover any readiness or response costs associated with imported goods.

- Q50. What transaction costs are associated with import tariffs? Are there administrative or other changes that could improve the efficiency of tariff collection?

For many years Federated Farmers has advocated for reducing and removing tariffs on imported goods. 65 percent of imports now enter New Zealand tariff-free and no product has a tariff rate of more than 10 percent. Tariffs neither raise much money for government nor offer significant protection for industries.

Federated Farmers submits that New Zealand's remaining tariffs should be phased out to lower at-border costs and promote New Zealand's international connectedness. Unilateral elimination of tariffs would also show the world that New Zealand remains committed to free trade.

- Q51. What changes in domestic transport institutions, policies and regulations might lead to the greatest improvements in the economic efficiency of the international logistics chain?

Road Transport

Federated Farmers agrees that road transport is a very competitive industry. We do not believe that any changes need to be made to road transport policy or regulation. However, we are concerned by funding decisions that are being

made that is reducing investment from the National Land Transport Fund into maintaining and upgrading local roads, especially those in rural areas.

While we support the new and increased investment in ‘Roads of National Significance’ it is concerning that the recently adopted Government Policy Statement on Land Transport Funding signals a funding squeeze for local roads¹¹. This squeeze will result in pressure on councils to increase rates and/or reduce levels of service, which could lead to deterioration in the roading network. Neglect of rural roads would not be in the interest of the international logistics chain given that most of our exports originate in rural areas.

Federated Farmers strongly believes that the entire roading network should be treated as a network and it should be funded accordingly. Local roads should be funded on a similar basis to state highways – i.e., by road users (via petrol taxes and road user charges) rather by property value based rates which bear no relationship to use of the roads. Unfortunately, the GPS signals a move in the opposite direction.

Rail

Federated Farmers agrees that rail is a suitable transport mode for some freight, especially long-distance bulk goods. However, we are concerned that rail is not generating enough revenue to cover its costs and is heavily reliant on the taxpayer for capital grants and operating subsidies. While there may be a case for some government investment in rail infrastructure (at least in the short-term), rail services should operate without the need for operating subsidies. Policies and funding decisions that favour rail over road, especially those imposing costs or restrictions on road transport, should be avoided. It is important that road transport remains a highly competitive and cost-effective industry.

Coastal Shipping

As with rail, Federated Farmers agrees that coastal shipping is a suitable transport mode for some freight, especially long-distant bulk goods. As with the discussion above for rail transport, we believe that policies and funding decisions that favour coastal shipping over road transport should be avoided.

- Q52. How competitive is the freight forwarding industry that serves New Zealand exporters and importers? Do the recent Commerce Commission investigations of a number of firms indicate that there are systemic problems, or that the regulatory and competition regime is working well?

The Commerce Commission has been undertaking enforcement action against various multi-national freight forwarders following a 2007 investigation around alleged collusion on freight forwarding services.

In a recent judgment the High Court found that there was a “sustained course of conduct involving covert meetings and communications”. So far, the Court has ordered a total of \$8.85 million in penalties against several freight forwarders with a further case to come¹².

¹¹ Government Policy Statement on Land Transport Funding, Ministry of Transport, June 2011.

¹² Commerce Commission media statement \$5.2 million in new penalties for price fixing in freight forwarding industry, 16 June 2011.

The fact that the conduct was investigated and successful enforcement actions pursued would indicate that the regulatory and competition regime is working as it was intended.

Q53. What are the costs of transit times for exporters and importers?

Federated Farmers does not have direct involvement within the logistics chain so we are not able to answer this question.

Q54. What sources of delay contribute to transit time? How might those delays be efficiently reduced?

Federated Farmers does not have direct involvement within the logistics chain so we are not able to answer this question. As mentioned earlier in this submission slow steaming and security requirements will be contributing to delays in transit times.

Q55. Are there potential efficiency gains from vertical integration in New Zealand's international sea freight services? What are the disadvantages? What might need to change in order to allow or encourage greater vertical integration?

Q56. Are there potential efficiency gains from the vertical unbundling of specific components or activities in New Zealand's international sea freight services? What are the disadvantages?

Federated Farmers believes that there would be efficiency gains from both vertical integration and vertical unbundling. Apart from a couple of isolated exceptions, innovations like vertical integration and unbundling of specific components and activities do not appear to have taken off in New Zealand. We agree with the suggestion in the Issues Paper that a factor behind this lack of uptake may be majority (and in many cases 100%) local authority ownership of ports infrastructure and government ownership of rail services.

As discussed in Q16, port companies need to be encouraged to operate more commercially. Increasing the levels of private investment in port companies should help dilute the political influence on decision-making and promote more commercially driven innovative solutions, such as vertical integration and vertical unbundling.

Q57. Should decisions on investments in ports and in the associated infrastructure links to ports be left to the judgements of the individual suppliers of the separate components? Or would some sort of overall strategic plan provide useful guidance and some assurance that complementary investments will happen?

Federated Farmers believes that government direction should not be necessary for port investment decisions. Port investment decisions should be able to be left to individual port companies based on their commercial judgment and forecasts of demand. The key is for ports to be operating on a more commercial basis and as discussed earlier in this submission we believe that policy and legislative change is required to encourage this.

However, investment in associated road and rail investment is provided by government agencies and a strategic plan for such infrastructure would make more sense. We would envisage such a plan being informed by port

company investment intentions rather than it dictating investment to port companies.

- Q58. What is the scope for greater consolidation of ports, greater vertical integration of ports with domestic transport operators, or more use of long-term agreements between shippers and port companies, as possible means to overcome coordination problems and achieve more efficient international supply chains?

Federated Farmers sees potential for these options in contributing to a more efficient international supply chain.

- Q59. Are there barriers to the negotiation of efficient agreements between ports and shipping lines?

Possibly. Shipping companies can and do put pressure on port companies by threatening to withdraw services and such posturing can result in deals being struck that might not be efficient at least from the port company's perspective¹³. However, tough negotiating positions are a feature of commercial practice and competition at work.

- Q60. Is there an asymmetry of bargaining power between ports and shipping lines? If so, what is the impact of this asymmetry? Are there any regulatory measures that might reduce the asymmetry?

It would appear that there might be asymmetry. In terms of regulatory influences, port companies are subject to the Commerce Act while shipping lines are exempt. However, NZIER includes the Commerce Act exemption as only one of eight factors influencing bargaining strength¹⁴.

We think it would be useful to consider whether this asymmetry is material and if so what can be done to reduce it. As discussed in Q20 and elsewhere we support an assessment being made of the impacts of international shipping collaboration agreements and shipping regulation generally.

- Q61. Are the time costs associated with international air freight incorporated into current road infrastructure planning? To what extent should they be?

No comment. Agricultural produce is not generally transported by air.

- Q62. Do domestic air links work as an effective feeder for international air freight services? What could be improved?

No comment. Agricultural produce is not generally transported by air.

- Q63. Where in the logistics chain are time delays occurring, and how might they be addressed?

Federated Farmers does not have direct involvement within the logistics chain so we are not able to answer this question.

- Q64. Does the imbalance of container use create significant costs? What practical

¹³ *Port Performance and Ownership – an assessment of the evidence*, NZIER, August 2010, pg. 25

¹⁴ *Ibid*, pages 25-28.

measures might efficiently reduce these costs?

Federated Farmers has no information on the costs of the container imbalance but they must be significant given its scale (192,000 TEU exported and 28,000 imported, creating a requirement to import 164,000 TEU empties) and the fact that empty containers need to be moved around the country to the regional export-oriented ports. The high seasonality of export trade is also an important factor.

However, the container imbalance is a fact of life given the nature of New Zealand's exports and imports, while the need to move so many containers around the country reflects number and location of New Zealand ports which in turn reflects the origin of exports and the destination of imports. Also, New Zealand's container imbalance is unlikely to be unique – other countries are also likely to have imbalances.

Commercial solutions are more likely to reduce costs associated with the imbalance. As previously discussed in this submission innovative practices like vertical integration and vertical unbundling have been slow to be taken up in New Zealand. More private investment in port and other infrastructure should provide greater incentives to operate in a commercial manner and adopt innovative solutions.

- Q65. What are the potential benefits and risks for New Zealand from a move to hub-and-spoke configurations for international shipping? Are there actions New Zealand can take to increase the likelihood of benefits or to manage the risks?

Hub-and-spoke configurations will be driven by the trend towards ever bigger ships and drives for efficiency. The New Zealand Shippers Council¹⁵ has suggested that hub-and-spoke configurations should enable lower voyage operating costs as a result of the economies of scale that bigger ships deliver. These lower operating costs would be expected to be passed on to cargo owners.

However, there are costs of moving to hub-and-spoke configurations. These include potential increases in the internal transport times and costs if cargo has to be redirected to a smaller number of ports handling bigger ships. There is also likely to be an increase in port and other infrastructure costs to recover costs of investment required.

With ever larger ships coming into service, hub-and-spoke configurations seem inevitable. The key question is whether New Zealand develops hub ports or whether shipping companies prefer to hub through Australia. New Zealand ports need to lift their performance above those of Australia and as mentioned earlier in this submission this requires further reform of port ownership and practices.

- Q66. 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?

¹⁵ *The Question of Bigger Ships – Securing New Zealand's International Supply Chain*, New Zealand Shippers Council, August 2010.

No comment. Agricultural produce is not generally transported by air.

- Q67. What measures might improve the overall system efficiency of the logistics chain for international air freight?

No comment. Agricultural produce is not generally transported by air.

- Q68. Are import and export opportunities excluded or constrained by the lack of access to international freight transport services? Are there changes in institutions, policies or regulations that could lead to better outcomes?

Most of New Zealand's agricultural production is exported by the dairy and meat companies and they appear to have good access to international freight transport services.

- Q69. Is there scope for increased sharing of operational data between transport firms to achieve improved coordination and efficiency? How might this be achieved?

Yes, but as the Issues Paper suggests there are a number of complex issues that need to be resolved (such as data ownership and potential for misuse and stifling of competition).

- Q70. Do the restrictive trade practices provisions of the Commerce Act deter the efficient sharing of operational data?

This should be looked into, including how other countries deal with concerns about anti-competitive practices.

- Q71. Is there a role for government to require the disclosure of performance measures in specific components, and to collate and publish that data?

Yes, it would be useful to have better information on port performance, for example, similar to that available in Australia.

- Q72. Given likely future trends in trading patterns and transport technology, will the reliability, speed and efficiency of international logistics services be adequate for New Zealand's interests? If not, what can be done to leverage opportunities and mitigate risks?

The more pertinent question might be whether New Zealand is able to take advantage of future trends in international logistics.

- Q73. What is the best way to achieve efficient decisions and coordination for the large, lumpy and interdependent investments that typically occur along international freight supply chains?

The best way to achieve efficient decision-making is to encourage all players to operate in a truly commercial and competitive environment. Investment and other decisions would then be best left to these players. The most useful thing any government could do is remove and reduce any barriers to implementing these decisions and ensure that its decisions around funding its roading and rail infrastructure is responsive the needs of ports, shipping lines, and shippers.

Q74. What factors would favour the choice of decentralised vs. centralised strategic planning?

There is room for both approaches. Federated Farmers prefers that suppliers of the individual components should be encouraged to make individual decisions relying on market forces to achieve efficient and coherent outcomes. For this to work the individual suppliers need to be operating on a fully commercial basis and be making decisions on commercial as opposed to political considerations. As previously discussed this requires further reforms of port ownership and practices.

There are aspects of investment (such as roading and rail infrastructure) where government is currently the provider and for these aspects some centralised planning is necessary. However, as discussed above such planning should be informed by the needs of ports, shipping lines, and shippers rather than it dictating investment to these players.

Q75. What costs exist in the various components of the international freight transport supply chain and how have they been changing over time? How do these figures compare with those for other relevant comparator countries?

Federated Farmers does not have direct involvement within the logistics chain so we are not able to answer this question.

Q76. What productivity levels exist in the various components of the international freight transport supply chain and how have they been changing over time? How do these figures compare with those for other relevant comparator countries?

As discussed previously in this submission Federated Farmers submits that after making good progress in the 1990s productivity growth has flattened in the 2000s. This appears to be true both for the ports and the wider economy.

Q77. Are you able to contribute data that would assist the Commission?

No. Federated Farmers does not have direct involvement within the logistics chain so we have no data that would assist the Commission.

Q78. Has this issues paper covered the key issues? What other questions need to be asked?

Yes, we think the Issues Paper is very comprehensive.

Q79. What are the most important issues for the Commission to focus on to achieve the greatest improvements in the efficiency and productivity of New Zealand's international freight transport services?

Federated Farmers believes that ports and associated activities such as stevedoring should be the highest priority, followed by international shipping regulation, and customs and biosecurity costs.

3. ABOUT FEDERATED FARMERS

- 3.1 Federated Farmers is a member based organisation that represents farmers and other rural businesses. Federated Farmers has a long and proud history of representing the needs and interests of New Zealand's farmers.
- 3.2 The Federation aims to add value to its members' business. Our key strategic outcomes include the need for New Zealand to provide an economic and social environment within which:
- Our members may operate their business in a fair and flexible commercial environment;
 - Our members' families and their staff have access to services essential to the needs of the rural community; and
 - Our members adopt responsible management and environmental practices.