CentrePort Wellington

CentrePort Ltd

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SUBMISSION ON INTERNATIONAL FREIGHT SERVICES

Introduction

This submission is made on behalf of CentrePort Limited. Some of the content is consistent with the Ports Group submission.

CentrePort is the third largest port in New Zealand by tonnes across the wharf, representing both domestic and international trade.

CentrePort has one of the most diverse portfolio's within the port sector servicing international and coastal oil trade, domestic coastal ferry trade, domestic cement trade, international break-bulk trade (eg scrap metal, forest products), containerised import/export cargo, vehicle imports, log exports, international and domestic cold-storage, empty container services, container packing and storage, international cruise trade, commercial and industrial property.

The port activities of CentrePort support nearly $1b of regional GDP generation.

Overview

Maximising the cost efficiency of the international freight system, for both imports and exports, is vital for a remote nation like New Zealand, dependent on trade to maintain and improve living standards.

CentrePort is supportive of this project. The two main benefits that could result are:

1. A much better understanding of the international freight system including; the needs of exporters and importers, how the various components (including road and rail, storage/processing and state agencies and the lines) interact with each other, and its cost/efficiency and effectiveness.
2. Changes in public policy that result in better outcomes for all participants in the freight system.

A comprehensive understanding of the entire freight system is essential before contemplating any public policy changes.

The port sector

The port sector is very complex because:

1. First, port companies deal with all land and sea modes of transport;
2. Second, port companies have to comply with complex regulatory agencies including MAF, Customs, Maritime NZ and DOL; and,
3. Third, port companies are all quite varied in that they have different customers, with different needs and as a result offer different ranges of services for their customers.

Number of ports: New Zealand has numerous ports performing a variety of functions within the international and domestic freight system.

The explanation for multiple ports is relatively simple – two Islands with the population concentrated in the North Island, and exports coming from both Islands, in conjunction with an internal freight system, necessarily constrained by economics. It should be noted that this also means considerable use is made of coastal shipping services, including those provided by international lines during the course of their normal international services.

Longstanding conjecture over port rationalization in the main relates to containerized trade and the optimum number of container ports required in New Zealand. For most ports, containerized activity only forms part of their operation and is often integrated within a wider portfolio of activities. New Zealand ports are typically generalist ports serving a broad set of domestic and international needs. This is a key point of difference to many international ports which specialize in containerised trade only.

The competitive nature of containerised services in our view supports importers and exporters by providing them with multiple supply chain choices, including mode of transport, port of exit/entry and choice of shipping line. The competitive market continues to determine the logical supply chain choices and therefore viability of containerized services supplied by port companies, road transporters, rail and shipping lines.

Port specific regulation: The paper noted New Zealand does not have the type of port specific regulation common offshore. Port companies are subject to the Commerce Act and other such generic regulation. As the ports sector is very competitive, the current generic approach is appropriate and should be maintained. Any consideration of port specific regulation should undergo very rigorous examination and full consideration of the possible unintended consequences.

Lines and ports – market power issues: As 11 ports handle containers, it can be assumed that ports have no real market power over the lines, which are reasonably able to reconfigure port contracts and visits as required. Port companies have no such flexibility, and has been seen in recent times, can be subject to very abrupt changes by the lines, particularly with container services.

In the case of non-container freight, there is also no problem with ports misusing any market power. Port companies typically make investment in freight specific facilities, without having long-term contracts with lines. Most of the users of such facilities are substantive entities with considerable countervailing market power such as: cement, fertilizer, aluminium, coal or fuel companies.

Profitability: There is no evidence of any port having super profits far less super profits resulting from the abuse of market power. How profit is measured will vary across port companies due to their different business models and needs to be put in the context of long term forward focused decisions about investment, market trends and competition. As a commercial sector, any assessment of profitability in this sector should be compared to other key sectors in New Zealand to establish relativity to the wider New Zealand economy.

Investment: No issues of substance have been raised by customers about under investment in the port sector. CentrePort itself has made strong commitments to serving the needs of importers and exporters with recent investments.

Productivity: In respect of containers, the MOT data recently gathered using the Australian Waterline methodology showed NZ ports compared reasonably well with Australian ports.

This data did not measure the difference between the cost of Australian port services for containers and New Zealand prices. We recommend the Commission obtain this data and that we expect it will show New Zealand ports provide very cost efficient services.

Comparisons with ports in other countries can be made, but regard must be had for the advantages of scale. Further it should be noted in some countries vessels have to wait for slots, so service availability and price are at least as important as actual container port productivity.

Productivity results are frequently influenced not just by port capability, but are in part a response to specific customer requirements. For instance some lines are prepared to pay more for a rapid turnaround while others are not.

As you will note in the MOT productivity data, CentrePort performs in the upper quartile in Australasia.

Non-container freight: Comparisons in this area will be particularly difficult because of scale and uses of different equipment. Unloading cars may be more straight forward but here again the cost per unit will be very relevant – not just the unloading rate.

Regulatory constraints: The RMA remains the largest single barrier to improving ports so they can provide more cost efficient services to lines. It is clear container port facilities such as those at Sulphur Point (Tauranga) and CentrePort could not be created with the current RMA. The regulatory costs imposed on ports to expand to accommodate larger vessels will ultimately be paid for by the tradable sector and are a barrier to trade.

The Commission should send a strong message to the Government and the community about these costs.

Ports and land transport: The international export journey starts at the factory in New Zealand – not the port gate. In the case of imports, the relevant segment for the Commission is from FOB at the port of export, to warehouse in NZ. While we do not expect the Commission to undertake a detailed land transport study, it is hoped the Commission will review current road and rail and investment and pricing for these modes because they are a vital component of international trade.

The Lines

Larger vessels: Vessel size has been increasing for the past 150 years and this trend is likely to continue over the long term, but is interesting to note some recent reversals of that trend. Container vessels substantially larger than the 4100s in use, will require deeper channels and enhanced port services than typically available today. When this need will arise is unclear. It may be useful for the commission to understand the size of the largest vessels currently calling at the much larger Australian ports. While the cost per tonne KM is lower for larger vessels there are other issues which will constrain their usage such as the need for regular frequency, and the total supply chain implications of much larger vessel loads.

Lines and regulations: In the absence of a compelling case to the contrary:

1. There should be a transfer from the MOT to the Commerce Commission of the regulation of lines which currently fall under the Shipping Act; and,
2. Unless there is a strong case to the contrary, the lines should be subject to the same generic law applying to other companies, including port companies.

However in considering this issue, the Commission should be mindful of policy trends offshore as it may be in our best interests not to lead the world.

Commission Questions

Q1

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

Economic efficiency is the right approach. However the Commission will also need to have regard for price and service, as it is conceivable a sole focus on efficiency may not result in a GDP maximizing strategy for New Zealand.

Q2

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

The export international journey typically starts at the factory – not the port. While we understand the Commission would not want to spend a lot of time on the internal freight system, it needs to factor in the reality that the decisions about lines and ports are heavily influenced by the strengths and weaknesses of road, rail and coastal shipping services. Imports typically have a shorter journey to their first point of disassembly, but similar issues arise.

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 in the overall efficiency of the freight system?

The component that should have the most focus is the unusual statutory treatment of the lines in respect of contracts with shippers. Specifically this is their exemption from Parts 2 and 4 of the Commerce Act; and, separately the Shipping Act, which allocated a role to MOT that would normally be dealt with by the Commerce Commission.

In addition the Commission might like to consider the issue of transport corridors and whether current planning systems adequately handle the needs of the logistics chain for the tradable sector. Protection of supporting industrial zones is also vital for the development of the manufacturing and transport sectors. Noise issues, including reverse sensitivity, are real issues for some ports where people have chosen to live close to port operations and then complain and seek to block port growth.

Q4

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

Environmental considerations are relevant to the extent they inhibit the development of a more efficient transport system.

A question to address is whether the current RMA would have allowed the current port infrastructure to be created. If the answer is in the negative, as we believe it is, the Commission ought to make its view clear to the Government. Port companies believe the RMA phase 2 review underway will not deliver the changes need to maximize the efficiency of the ports and other infrastructure of national and regional importance.

It is important that environmental policy makers fully understand the economic costs of their policies so that the wider community appreciates the tradeoffs that are being made.

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?

Yes to all questions, particularly for containers. Raw productivity data will shortly be available from the MOT, which compares NZ ports with their Australian counterparts. This should be assessed alongside prices charged by Australian and NZ ports, which the Commission will have to collect.

It should be noted that container productivity levels are influenced by the nature of the commercial relationship with the lines, which is where the price, service tradeoffs are made. Some shippers/line want to pay a premium for certain freight while others don't, and this results in different productivity levels.

In market economies the benefits of competition, in respect of price and service, are established beyond question, and given the number of container ports in NZ this should not be seen as a problem area.

For non-container freight there is real competition, because in nearly all cases the lines could use a different port, should the price and service from the incumbent be unsatisfactory. Lines are able to use comparative information from NZ and overseas ports when negotiating with a NZ port.

Q6

What are the most appropriate and reliable data available to measure port performance and productivity in container handling?

The MOT is collecting container productivity data at present, which port companies believe is all that is needed at present. The measures are: total containers, crane rate, ship rate and vessel rate. Port companies are open to adding measures to the current set where appropriate.

While very useful, this data will not tell the whole story. Unlike some countries, NZ ports do not typically have ships waiting for a berth. With very few exceptions outward and inward freight is not unduly delayed due to port constraints. Finally, all the evidence available suggests, for containers at least, NZ ports are significantly cheaper than like Australian ports prepared under Australia's 'Waterline' statistics definitions.

Q7

What are the most appropriate and reliable data available to measure port efficiency and productivity in handling bulk cargo?

Port companies are not aware of an internationally acceptable measure that is used by the Australian ports, which are seen as the obvious comparators. Port companies are open to suitable measures should they be available. Tonnes per gross (stevedoring) gang hour may be useful for bulk cargo or vessel rates of tonnes/hour from labour on to labour off.

It should be noted that in many cases the handling of bulk cargo is managed by third party operators who contract directly with the shipper, not the port company.

Q8

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

Australian container ports, but regard should be had for their typically greater volumes. Allowance should also be made for those ports, which use lower capacity mobile versus gantry cranes.

Q9

Did port productivity improve during the 1990's? What were the drivers of those improvements?

Port productivity improved in the 1990s but we are not aware of aggregated data that quantifies the improvement. The Port Companies Act 1988 combined with labour market reforms of the early 1990s, as well as new technology all helped to drive productivity gains.

The commission may also wish to review the impact of supply chain decisions by large exporters.

Q10

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

We are not aware of aggregated data for the past decade that covers all ports. The policies that could lead to further productivity gains are not port specific. They include the RMA and labour market law. Changes to labour law since 2000 have not been helpful in respect of productivity.

CentrePort's container productivity has improved dramatically in the last five years on the back of investments in new technology and is now industry leading.

Q11

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

There is no single agreed measure of port profitability, which explains why different analysts have reached different conclusions. The situation is further complicated by the reality that ports have different assets and service offerings.

The method used by the Commission should be forward looking and discussed with the port companies themselves.

Q12

Is there evidence of a systematic problem of low port profitability? Or conversely, excessive profitability?

What is clear is that there is no evidence of super profits at ports and no evidence they generally have market power that could or is being used in a manner damaging to the tradable sector.

If any assessment is to be undertaken it may be useful for the Commission to compare ports with other large NZ industry sectors.

Q13

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

CentrePort has invested in meeting the needs of the market and can share information if required.

An unusual feature of the lines – port relationship is that it does not normally involve long-term commitments. This is despite the fact port companies have to make expensive long-term investment in facilities even though there is very rarely any guarantee of long term business. This is an international characteristic of the industry.

Q14

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

New Zealand has numerous ports performing a variety of functions within the international and domestic freight system.

Longstanding conjecture over port rationalization in the main relates to containerized trade and the optimum number of container ports required in New Zealand. For most ports, containerized activity only forms part of their operation and is often integrated within a wider portfolio of activities. New Zealand ports are typically generalist ports serving a broad set of domestic and international needs. This is a key point of difference to many international ports which specialize in containerised trade only.

The number of ports in New Zealand is the result of: New Zealand comprising two main islands; the population concentration north of Taupo, which absorbs a large proportion of imports; the fact a large proportion of exports come from regions in the South Island; the imbalance between reefers and other TEUs; and the cost and efficiency of the internal transport system. Some non-container freight is very expensive to move long distance in New Zealand, which means these products tend to be exported out of the nearest regional port.

The port sector is changing and this will continue as importers and exporters make decisions that impact on ports, and as ports and their shareholders reassess their options and change their service offerings.

Some may choose to specialize more in certain freight, while others may become predominantly feeder ports. Rationalisation can take many forms with entry and exit into different freight categories being the most obvious – container vis a vis bulk and break/bulk being the most obvious.

There is no perfect number of ports – the main issue is the bundle of services provided, their quality and price – not the number of port companies.

The competitive nature of containerised services in our view supports importers and exporters by providing them with multiple supply chain choices, including mode of transport, port of exit/entry and choice of shipping line. The competitive market continues to determine the logical supply chain choices and therefore viability of containerized services supplied by port companies, road transporters, rail and shipping lines.

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?

Ownership behaviours, not the type of owner ultimately determine the effectiveness of a company.

Q17

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

As in all business sectors there are a variety of models within the port sector. Ports are not static businesses and it can be expected internal business models will change at some ports over time. There is no more case for the state to mandate any particular model for this competitive sector, than there is for road operators.

While the landlord model will make sense in some situations it will be sub-optimal for others. As port companies are required by the Port Companies Act to operate as a successful business and by the Companies Act to act in the best interests of shareholders, decisions about operating models should be left to their Boards.

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?

Differential regulatory treatment of contracts between lines and shippers has been justified on the basis this area is special. It is noted that this assumption has been accepted overseas but in recent times has been questioned.

The onus is on these parties to demonstrate economic efficiency is enhanced by current policies. In the absence of compelling evidence for the status quo, the Commission should recommend lines be treated the same as other sectors, but should also have regard for the timing of changes to like policy in other countries.

Q23

Would the Commerce Commission be better placed that the Minister of Transport to oversee the regulation of international shipping services?

Yes – competition regulation is a highly specialized area and best suited to the experts at the Commerce Commission. In a small country like New Zealand it is not reasonable expect the Ministry of Transport to retain the competition expertise to deal with these issues once every decade or so. The Commission is experienced in dealing with industry sectors where it has previously not operated, whereas MOT is not, and to the best of our knowledge has not dealt with many complaints about lines under the Shipping Act.

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?

The Government needs to be certain its investment and pricing policies for road and rail freight are rationally based, otherwise there will be a loss of efficiency. It also needs to ensure that coastal shipping services are able to compete with road and rail on a fair basis. Port companies are not presently convinced that current road, rail and coastal shipping policies have created a level playing field.

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?

CentrePort believes that a disproportionate amount of freight is being imported into Auckland, resulting in inefficient and use of land transport. Many trucks and trains traverse the length of the country each day full and return largely empty. This is a market dynamic worthy of review.

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?

There is already some integration occurring. For example, rail and freight forwarders or ports and third party logistics transport companies.

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?

The government has a key role to define the desired outcomes required for New Zealand's success. It then has a key role in determining the 'enablers' of this success and ensuring that a framework is established for driving the effective provision of these enablers.

The state owns road and rail and it important that it makes its investment and pricing decisions well informed by the intentions of exporters and importers and capacity and capacity constraints at ports. In a small country like NZ this should be possible by all parties staying in close contact about their intentions, as distinct from a centrally devised "overall strategic plan".

Port companies are best qualified and responsible for making good investment decisions having regard for freight realities, relative competitiveness and developments in road and rail.

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?

Considerable and the market should be the driver.

Q 59

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

The Commerce Act is a barrier to ports agreeing amongst themselves a rationalisation of freight services with the lines.

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?

There is asymmetry of bargaining power because:

1. The lines are generally larger entities than port companies and they can collude to negotiate with exporters and importers [Commerce Act s 44(2)] which further strengthens their hand; and
2. The container lines can easily change ports and move containers around the country whereas ports are immobile.

Q64

Does the imbalance of container use create significant costs? What practical measures might efficiently reduce these costs?

The imbalance of container use does create extra costs, which results from New Zealand importing many empty reefer containers, which need to be moved to the export factories, many of which are in the South Island, while many dry empty containers have to be exported. The market resolves these issues and no regulatory solution is suggested.

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?

There are potential benefits from more hub and spoke configurations of shipping services as they will permit use of larger vessels with lower per tonne KM costs. Against that are reduced vessel visits, with implications for the pipeline, and higher internal transport costs. The market will decide how far the hub and spoke process goes.

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 there is. Real time end to end supply chain information helps to increase utilization of the transport infrastructure.

Q71

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

No. Port companies voluntarily provide data to MOT where it considers this appropriate. Mandatory requirements would inevitably lead to unnecessary and costly exercise for ports and

other parties, and could be commercially damaging. The commercial parties involved in the logistics chain have the ability to ascertain costs at each stage.

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 market will take care of its lumpy investment decisions where it can demonstrate to shareholders and financiers the investment is justified. The government will have to take care of its road and rail investment decisions, and that is the best role it can play.

Q74

What factors would favour the choice of decentralized vs. centralized strategic planning?

Centralised planning is necessary for road and rail because the government owns this infrastructure, determines investment level and to some extent the rate of return. The market can look after the rest.

Q77

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

CentrePort welcomes the chance to meet with the commission and discuss its requirements.

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?

The key issues are:

- ensuring a level playing field for all operators within the freight system (road, rail, ports, importers, exporters and shipping lines)
  - the impact of the Shipping Act and the partial exemption for the shipping lines from the Commerce Act;
  - whether the government has the best possible road and rail policies, in particular if subsidies and pricing signals are consistent with generating long term sustainable outcomes.

CentrePort welcomes the opportunity to discuss this submission in more detail and would like to invite the Commission to attend a port tour and explanation of our business to support your analysis.

Kind regards

Blair O'Keeffe
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