



# **SUBMISSION**

by

**EMPLOYERS AND MANUFACTURERS'  
ASSOCIATION (N) INC.**

**Submission to  
The New Zealand  
Productivity Commission**

**on**

**International Freight Transport Services**

Prepared on 31 August 2011

## **1. BACKGROUND**

This submission is made by the Employers and Manufacturers Association (Northern) Inc. (EMA).

The EMA is made up of some 8500 member business units covering the New Zealand region north of Taupo. This membership includes approximately 1500 manufacturers ranging from large to SME.

Within our membership there are a significant number of companies and organisations involved in the manufacture, importation, supply, distribution and retail of most product types and the provision of services in a wide range of service sectors including governmental, contractual, tourism, IT, banking, insurance and business advisors.

As an organisation the EMA supports international best practice to be followed and compliance costs are fully addressed in any legislation.

As the leading voice of business in the upper North Island we actively participate in both the submission process and any development of regulatory proposals or inquiries that may impact on our membership such as those discussed within the inquiry document

## **2. CONTACT**

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### **3. Submission Summary Statement**

The EMA supports the efficient and effective movement of freight within New Zealand and Internationally.

The Chairs the Tomorrow Cargo Logistics Committee which has this aim as part of its core purpose bringing together both government and industry to discuss and share ideas of improvements and to address issues that adversely affect this movement.

Our membership includes a broad range of manufacturers, exporters, importers and those involved in the logistics supply chain at all levels and it is from our experience with this broad range of membership that we have made this submission.

We believe the fundamental areas that affect the efficient and effective movement of freight are:

- Data requirements whether for New Zealand or Internationally requirements
- Data movement electronic and/or manually and its timeliness
- Excessive bureaucratic processes whether at governmental or industry levels
- Access to facilities in a timely manner whether this is ports, logistics hubs, or importer/exporter premises
- Transport – road/rail or shipping
- Double handling of freight
- People skills and knowledge
- Adequacy of; logistics facilities(including ports/airports), roads, rail or sea freight vessels and aircraft

Improvements in any of these generally result in some improvements in the productivity of that aspect but improvements in multiples of these areas can produce significant gains as they mutually assist each other's improvements.

We believe that improvements can occur and are occurring individually through positive actions by government agencies like Customs and initiatives by some ports to gain efficiencies. Work between agencies and the industry sectors however provides the greatest gains as outlined in the above paragraph and it only when those involved in each sector know and understand the actions and initiatives fully that this cooperative work can occur.

We have endeavoured to respond to the questions raised by the Commission however in some areas we believe the most effective comment should come directly from those sectors and we have indicated that accordingly.

## Specific Comment and Responses to Questions:

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

The scope of this inquiry appears to be broad and encompass all of the core areas that we perceive necessary to address.

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

In pure logistics terms this description does cover the areas necessary to be covered. We would like to added to the diagram the terminating points in that a critical part of the process is the exporter or importer themselves and the way they produce and pack the container or receive and unpack the container for on distribution.

An example of this might be the ENZA process where the packed goods are being input into the data stream at the point of packing in the pack house so that by the time the finished consignment in the container is complete the data movement is already moving down the full logistics chain to rail/road, Customs, MAF, Ports and the shipping companies. This improves the timeliness of transport and clearance procedures immediately for that container. Hence leaving this component out would be a mistake as it contributes to the whole process.

**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?**

While some components do require more attention such as MAF Biosecurity, double handling of containers at port to accommodate inspections and trucking where back hauls are not always carried out, it should be noted that work by both industry and government agencies is already underway on many aspects of these to achieve improvements.

These changes already proposed or commenced, if applied will create savings in time and efficiency of facilities and transport. The issues have already been identified for the most part and the change to Trade Single Window will be the greatest enabler of getting these efficiencies achieved.

It is perhaps the consistency of application across the country and applying the benefits available through all ports and logistics companies that will be the challenge. Some are well ahead of the development of the Trade Single Window and looking at interfaces from it while others have not yet understood or considered how they can apply the benefits within their operations.

If for example Kiwirail interface differently with each port or larger trucking firms have one port that is manual in its processes and another that has a vehicle booking system, it results in duplication of activities and reduces the ability for those in the transport sector to achieve efficiencies.

The inquiry should focus more on the interface aspects as a result of this.

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

Environmental issues affect market access for some exporters so having an ETS can be a positive in that aspect. The inquiry shows a range of international comparisons but if we want to measure apples with apples in terms of transport and logistics domestically this is a cost that has a significant negative effect. All business is impacted and while aircraft and international fuels are not targeted, those organisations with a New Zealand operational presence will also be feeling the effects of that within the costs they incur for local fuel use.

Once farming comes into the ETS this will have considerable downstream effects and combined with the effects on larger business directly captured, this may have impacts on the level of processing that occurs within the country. It may be possible that timber for example exported unprocessed to China or elsewhere and re-imported in processed form may be an unforeseen outcome of the ETS. Such a change will have a direct impact on logistics domestically and demand for ports and shipping.

We do not believe that environmental considerations outside of those that directly impact on demand, costs and ability to move freight should be considered.

**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?**

We believe there is a high level of competition for customers between the Port of Auckland and Tauranga however that competition drops off as you move to smaller ports around New Zealand. Many of the smaller ports are narrowly focused on logs or oil and gas for example which can be efficiently exported via those operations but the fact that there is limited or no imports for those same ports shows that they are not really able to compete for that business.

The term customer is also something that is not well understood for ports. A ports key customer will mostly be the shipping companies that call to uplift freight and secondary customers are those that ship freight through that port once a shipping line has agreed to use the port. Retention of shipping lines can be difficult as it is a chicken and egg scenario. Once you have a shipping line you can then look to get secondary customers to have their freight loaded at that port as opposed to another.

To get shipping lines to call the port must be able to offer facilities that will meet all of the demands of the shipping line. This does lead to investment and development of the port and ultimately to efficiencies

The exception to this rule is where a large exporter demands the shipping line pick up from a particular port in order for them to retain their business. This can occur in only a couple of instances and it will be driven by the exporter only if this is the most efficient and cost effective arrangement for them. Arguably this could be considered a market aberration that might not occur in a larger economy or country.

## **Q6 to Q13**

We recommend these questions are more appropriate to be answered by Port operators, Freight Forwarders and/or Shipping companies. The EMA will not make comment on these for this reason.

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

Certainly if we look overseas at other countries use of international ports, this would appear to be the case. If so then the argument for a Hub and Spoke arrangement with some ports becoming domestic/coastal shipping only might be called for.

The reality of this type of decision is that in some cases the ports may cease to exist with freight moving either by rail or road to the bigger ports in those instances.

Given the predominant council ownership of many ports, this could see both strong local government opposition and also union/employee backlash for any government who mandated the requirement.

At present it is a combination of market forces and local government support that keeps this status quo in place.

A change recommendation on the number of ports should be driven by those who use the ports as they are the ones who can identify whether there are savings and efficiencies or additional costs to be had by such changes. This includes the real ability to move goods to another port. Closing Northport or Whangarei would obviously have a direct local impact but the wider issues of imported Oil which is not desirable and wood exports which would then need to be moved to another port for export on roading and rail infrastructure that is not suitable for this movement.

It is likely that similar issues arise for many of the other ports so we would be highly cautious about recommending this occur.

### **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?**

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

We believe that 100% local authority ownership is detrimental to good commercial investment decision making and that where possible at least 49% shareholding should be floated as tradable stock for each port. Cross ownership of ports should be allowed under strict rules of demonstrated benefits from that relationship existing and approved by the Commerce Commission.

If commercial investment decision making were applied the market would decide whether it was wise to invest further in a port or not and whether splitting some functions with another port might be beneficial.

We would argue that councils would free up capital by this process for other more relevant investment and ideally the ownership would move to 100% floated stock in

each case with the rules around cross ownership policed by the Commerce Commission.

Those rules would need to extend to 100% ownership by large exporters but should not prohibit that possibility just assess that this had greater benefit to New Zealand and was not inherently anticompetitive or potentially other unforeseen adverse outcomes. Such ownership should not prevent or impose barriers to that exporters potential competitors using or continuing to use that port.

Changing the ownership structures would engender cultural and efficiency changes and add to the competitive forces.

**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?**

**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?**

The ability to allow outsourcing and private stevedoring operation on ports is a highly efficient model proven particularly in the Ports of Auckland and Tauranga operations. We support this option being available.

Union relationships have always been an issue in port operations and for that reason allowing effective competition for stevedoring and other operations within a port allows those types of inflexible labour practices to be reduced. We are reluctant to say eliminated as the right of a worker to belong to a union is established as right in the New Zealand workplace law and for that reason there inevitably will remain some practices and difficulties when negotiating with unions at various times.

If we assess New Zealand ports against most international ports on this basis, we believe the New Zealand ports generally hold a more positive position to those ports where unions tightly control labour such as Melbourne.

This said there is always room for improvement and ports tend to have high Union involvement irrespective of private stevedoring operation and philosophically we believe that less Union equals greater flexibility in the workplace.

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

While some of our members do claim poor competition, since the recession downturn following the GFC, we have seen pricing for containers sharper than those available during the previous boom periods. So we believe that competition is stronger now than it has been however there remains a limited number shipping lines that call from New Zealand and without the exports of Fonterra it is likely that not only would these reduce numerically but also the volumes through multiple ports would reduce to a point where the adoption of a hub and spoke would be required using just one or two ports for international shipping.

The prevention of cabotage by allowing international carriers to also carry domestic freight, also assists in the volumes available to exit or enter by multiple ports and reduces double handling in many instances.

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

Potentially this could be the case however we have no evidence to show this is the case and given the small size and nature of the New Zealand market, we may not be in a position to demand otherwise if this does occur.

**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?**

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

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

While we would argue that there should be one law covering all commercial activities the reason for these exemptions are based on an understanding of the nature of shipping to and from New Zealand.

In the area of imports, New Zealand has control over commercial activities once the vessel has docked and from that point so leaving out the area that New Zealand authorities would have virtually no authority over such as agreements formed internationally seems to remain a sensible option. The Commerce Commission really would not have the ability or expertise to go beyond this demarcation point.

In the area of exports we recognise the need for agreements between both shippers and international shipping companies to uplift goods and so again leaving these out of coverage appears sensible and pragmatic. However the movement of those goods, handling or loading of those goods should be no different to that of imports and would believe that in this area the Commerce Commission should have a responsibility.

Arguably the Minister should be able to review arrangements where the role of the shipper and international shipping companies where there appears to be arrangements that are detrimental to competition but if we are pragmatic about this and given the essential need by New Zealand as a whole to our goods uplifted we need to accept that this mechanism is more appropriate than that of the Commission.

If international shipping companies were put off accepting freight such as Milk Powder and Logs under special arrangements we may impose greater costs on the major export leaving New Zealand. It is a fine balancing act between allowing competition to exist and ensuring no interruption or detrimental effects to our major exporters.

The EMA has no evidence of such arrangements causing competition issues between shippers although the effect of some arrangements may have effect on the use or non-use of some ports. Such effects however could be construed as attempts to gain the maximum efficiency in the movement of major New Zealand shippers export freight.

- 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?**
- 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?**
- 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?**

We cannot comment on the extent of affect under Q24 however should an international prohibition of international shipping conference occur then it would logical for New Zealand to follow suit once such prohibitions took place in major markets such as the EU and the US.

Given that the US and Australia have not followed such a stance, we believe that we should follow the lead of the US and Australia and apply similar rules of disclosure. Our largest trading partner is Australia and we should be looking to ensure we do not get out of line by making rules more difficult for shippers or shipping lines that would apply in Australia. Alignment should in the first instance to this market.

We should bear in mind that if we ship to the EU and that market bans such practices then the net effect would be a ban on practices for shipping direct (point to point) from New Zealand to the EU. By default any benefit or harm would come from this EU action.

Lastly we should bear in mind that shipping lines do not have to provide point to point shipping of freight and running freight via international hubs such as Singapore to avoid regulatory compliance could have a detrimental time to market effect for New Zealand exporters in particular.

We would therefore express caution about applying regulation that might sway decisions by shipping companies servicing New Zealand.

- Q27 Are Auckland, Christchurch and Wellington airports subject to competitive pressure for the air-freight related services they provide? Do they exert market power to the detriment of New Zealand exporters and importers?**

The volumes through Auckland are more related to the available aircraft services than the airports. We see airports as the links to the world and as Auckland has more such links directly or indirectly, it is natural that most export and import air freight will pass through that airport. Christchurch has less such links and for that reason the volumes are less but it should be noted that volume does also travel from both Wellington and Christchurch to Auckland in order to connect to the links available out of Auckland.

We have heard occasionally from exporters in the South Island that they have had difficulty in obtaining sufficient cargo space to move goods to Auckland or to Australia due to the size of planes operated. This is not an Airport issue but an airline issue/consideration.

**Q28 Do current ownership and governance arrangements of New Zealand's international freight airports have any significant positive or negative effects on their long-term efficient configuration and operation, with respect to the supply of freight services?**

We have no evidence of either positive or negative effects for airports. Most airports do address freight configuration and operations within their planning for efficiencies however those efficiencies are a lower priority than those for passengers and we have tended to see spending in this area at a much lower level resulting in lingering known inefficiencies.

**Q29 The objective of a port company under the Port Companies Act is to 'operate as a successful business'. Should airport companies owned by local authorities have the same single objective rather than the multiple objectives specified in the Local Government Act?**

We believe this objective should always drive businesses whether airports or ports so if conflicts and inefficiencies are the result of local government interference, then expanding the coverage of the Port Companies Act to also provide the same objective to airports gives clarity.

**Q30 What levels of investment have Auckland and Christchurch airports undertaken in international freight, and are they consistent with accessible and efficient services for New Zealand exporters and importers?**

Both airports have sizable investment programmes and long term strategies which include freight. We cannot comment in detail about Christchurch but in the case of Auckland investment does sometimes depend on the progress of the long term plan for terminals and passenger handling before the investments in freight handling changes can occur. For example the current domestic passenger terminal must move in order to free up the current domestic terminal area for freight and allow the moving of the Customs and MAF inspection areas to more secure and efficient locations. While the overall movement timing will not change much, it will reduce handling levels and provide the security levels desired by the likes of the US for airfreight to be fully achieved.

**Q31 Should the future size and shape of New Zealand air freight services be left to market forces and individual airport owners, or do lumpiness and interdependence (including with investments in connecting parts of the overall supply chain) call for a more deliberately coordinated approach?**

It is difficult to argue that any form of regulation will achieve investment and we would be loath to consider this an option. Airports if tasked to run a profitable business would need to consider carefully investments and we believe that market forces should be allowed to apply wherever possible.

Whether provision to allow airports to cooperate to achieve better volumes or freight movements may be a consideration but given the geographical layout and nature of New Zealand it would be difficult to see how this might be of benefit other than with regional airports and the major airports becoming the hub of a hub and spoke structure where the cargo is packed ready for transshipment. Such an arrangement would require similar aircraft capacity for accommodation of the air cargo and this is dictated by airlines and not airports. So any coordination would involve all such parties and that involvement may need exemption by the Commerce Commission to allow it to work effectively.

A key barrier to this occurring is the requirements of the US for 100% screening of air cargo by December 2011 which would require unpacking at the airport of departure, X-ray scanning and repack regardless and therefore negating any logistics chain benefits.

**Q32 What are the most appropriate measures of airport performance in international air freight? Can you assist the Commission by providing data that compares New Zealand airports against others?**

We believe the airports and airlines are best placed to answer this question.

**Q33 Are there opportunities to introduce or increase competition in the provision of air freight-related services at airports? Would such competition lead to better outcomes?**

We believe this question needs responses from both airports and airlines and just what types of competition could reasonable be achieved identified given security and other requirements.

**Q34 Is the existing and planned Commerce Commission regulation of airports sufficient to restrain monopoly pricing and induce an efficient level of investment? If not, what should change?**

We believe this has proven adequate with airports required on more than one occasion to prove their charging is fair in relation to the rate of return on assets. We note and accept that some airlines do not hold this opinion however the fact that the Commission has not to date chosen to apply its powers to control pricing gives some verification that airports are aware of their monopoly position in the market and take care when reassessing their charges to airlines.

If we look at Auckland Airport we see a need for significant investment going forward in not only direct freight related facilities but in the second runway and adjustment of passenger terminals to ensure the optimum access to both runways by aircraft.

If more freight is available this will dictate firstly the need for more dedicated freight aircraft as opposed to available space on passenger aircraft and that will in turn drive the dedicated areas of the airport for those dedicated freight services and aircraft.

- Q35 To what extent is the international air freight industry competitive?**
- Q36 Are there specific air freight routes to or from New Zealand with low levels of competition? Is there evidence of overpricing or poor service levels on these routes?**
- Q37 How do bilateral air services agreements affect the accessibility and efficiency of air freight services available to New Zealand exporters and importers?**

We agree there is good competition on the Trans-Tasman route but given New Zealand's geographical position in the world it is hard to achieve greater competition on long haul flights when the majority of such freight travels on passenger planes.

Flights are also dictated by landing slots and to establish a new service whether passenger or dedicated freight only, requires both points to be negotiated. This is quite unlike ports and shipping lines deciding to run a service or not. Even when an agreement exists to allow flights, it must be profitable for an airline to establish a service and in reality that normally involves passengers as part of the route. To dedicate an airfreight service and airline must have significant volumes to and from that market.

- Q38 What explanations exist for the different treatment of international air freight in the Civil Aviation Act compared with the normal competition requirements of the Commerce Act? Do the objectives of the current regulatory treatment continue to be justified?**

This is a question for airlines, airports and freight forwarders

- Q39 Should the regulatory functions in Part 9 of the Civil Aviation Act be the responsibility of the Commerce Commission rather than the Minister of Transport?**

This is a question for airlines, airports and freight forwarders

- Q40 Does the Cargo Agents' Commission Regime perform an active and useful function in international air freight services? Who does it benefit? Is the exemption from the Commerce Act required to achieve that function?**

This is a question for airlines, airports and freight forwarders

- Q41 Has S.90 of the Civil Aviation Act been used in practice? What are the arguments for retention of the ability of the Minister to issue a tariff?**

This is a question for airlines, airports and freight forwarders

- Q42 To what extent are the current regulatory arrangements adequate to deal with the investigation and prosecution of collusive behaviour in international air freight services?**

We believe they are adequate but note that we tend to follow the lead of other agencies in the world.

**Q43 Do the current regulatory and competition regimes that affect international air freight transport services work well, or not, for New Zealand exporters and importers?**

This should be answered by the Board of Airline representatives and Freight Forwarders and Customs Brokers

**Q44 Is there a case for the different regulatory treatment of air freight services vs. sea freight services?**

While there are some synergies there are also significant differences and so separating the regulation of sea and air freight services should be considered.

**Q45 What lessons can New Zealand learn from the different ways that competition law and regulators in other countries deal with international air freight services?**

We should be aware of other regulators, their competition law and dealings however we should also be aware that just following suit may not always be the best regulatory practice. We should always be looking for the “best” regulatory practices and not just emulating those of Europe, US or even Australia even if those prove to be the right direction to take once we have assessed all of them.

New Zealand tends not to take the big stick approach to regulation whereas this is quite evident in the larger economies of Europe and the US when it comes to enforcement and based on prescriptive legislation with significant penalties designed to deter collusive activities.

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

Exporters face less New Zealand direct costs than those faced by importers however this is more than offset by the higher direct costs faced when their products reach their destination.

Typically we face less costs for imports in New Zealand than for most countries we export to so there is some argument of efficiency within the border agencies. Most investment undertaken by Customs or MAF/Biosecurity is fully cost recovered as is airport security costs. We believe there is limited scope for reduction without removal of interventions, but there is scope to keep increases down with the significant government investment in upgrading the Customs and MAF systems.

We would argue there is a significant public good aspect to these agencies work and that public good should be funded fully by the tax payer and not freight movements. Compliant and importers of good record should not face as much cost for Customs or MAF/Biosecurity clearances as those who incur the real costs through non-compliance.

Additionally those compliant and importers of good record should get preferential service to speed their freight through the processes.

MAF has not been able to measure or track importers of good record however this will be available to them under the new Trade Single Window with their back room merger of systems with Customs CUSMOD system.

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

This is already being address with the Trade Single Window and we fully support this initiative as the most likely to achieve improvements and effectiveness of both organisations and in particular that of MAF/Biosecurity as they move finally away from Faxed manual clearances to a fully electronic system integrated with Customs and able to link with Ports and other organisations. This should see most non-risk freight cleared electronically ahead of arrival and allow the streamlining of logistics at the point of arrival.

We believe this can also deliver similar benefits with exports and particularly with food products requiring food safety clearances and ultimately streamline those processes across the Tasman to assist clearances into Australia through the provision of government to government data.

Links to other country agencies will provide the greatest benefits to both exporters and importers alike through timely production of the data requirements and confidence in the quality of data being provided to each agency.

**Q48 Does the World Bank's 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?**

There is some opinion that streaming documents related to payment and release of goods would be an improvement however this does need to be achieved in a coordinated way across markets and not just a couple of economies in order to have real benefits. There are a number of schemes offering aspects of this however as it has been left up to the private sector, there has been poor integration to make this function in the way those both importers and exporters would like to see delivered.

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

Most of these costs are ultimately dictated from the US so bi-lateral arrangements such as the Secure Partnership under Customs offer the greatest potential. It should be noted there are direct costs (fees/inspections), indirect costs (vetting of staff/hardware/people available to supply data/software, additional handling and seals etc) and then there is the cost of delays by using less secure options or when the likes of the US apply a security lockdown such as happened post 9/11. The first 2 offset the latter but it may be a legitimate business risk that exporters take when not adopting the secure partnership scheme.

We believe that the impact of costs are relevant to the size of business and whether you are shipping via the US or to the US and therefore this question should perhaps separate that aspect.

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

These costs are relative to the size of company and the level of sophistication of technology applied by the importing company. Larger sophisticated companies will have integrated connection, delayed accounts or direct debit systems which handle these processes within their systems. The reality is that most products do not face tariffs at the border but do face many other transactional costs for GST, clearance fees and for bio-security processing. Those are far more substantial in terms of transactions on imports into New Zealand.

**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?**

Avoiding single transport movements and getting back haul loading to and from ports or exporters would be the single greatest improvement. This makes the most use of vehicles, rail or coastal freight and the human resources that operate them.

The key this is information flow and ensuring that timing of drop off/pick up activities are planned, it is always targeted at that aspect.

Allowing greater sharing of information within a structured format is the most likely to allow this target to be achieved. To that end the Trade Single Window will be a key driver in moving this target forward but will also need its value to be full recognised by all ports, logistics operators in New Zealand and major exporters.

**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 looked a narrow aspect where there may well have been problems however in the wider freight forwarding industry there is generally good competition. As with any industry there is always scope of collusion and this must have a watch dog such as the Commission looking to see that such activity does not occur. We do not believe there are systemic problems but New Zealand is a victim of its size resulting in a limited number of participants in key areas such as airports, carriers (sea and air) and the geographic layout for ports and population.

**Q53 What are the costs of transit time to importers and exporters?**

Any time between shipping and payment is a cost but this issue varies greatly from market to market and whether you are an importer or exporter.

Whether there is a greater cost related to the shipping time for an exporter to that of terms of payment for domestic supply of the same product is questionable and certainly for product to Australia this is marginal. Once products go further afield to Europe or the US then this cost is high if there are delays. We believe that

exporters normally factor in normal transit times but most of this time is beyond any control within New Zealand. The exception is the secure partnership arrangement with the US and Japan where information and release is improved by the arrangements between governments.

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

Delays come from ships access to ports (usually overseas), loading/off loading delays, delays in road or rail movement from overseas ports, inspections by customs or other officials and delays in providing documentation.

Some of those delays can be reduced but many are beyond New Zealand exporters or importer control. The most obvious improvement areas are around provision of information and timely release of goods by Customs/Maf-biosecurity for imports and for ensuring all documentation for the intended market is provided early for exports.

**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?**

Vertical integration allows better information flow and coordination however our experience is that this also stifles completion and disadvantages small exporters in favour of large exporters. While we need the advantages it is important to retain as much value from competition as is possible within a small isolated country such as New Zealand. The ownership structures at present may have some disadvantages and while we advocate more public ownership this does not extend to shipping companies owning existing ports or facilities. Should a shipping line wish to establish a new port such as the move by Kiwirail to a new South Island facility we accept that this investment should be allowed as it is a domestically focused change.

**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?**

We are strongly in favour of ensuring that core operations such as ports are open to competitive forces. This is well evidenced by the Port of Tauranga and Port of Auckland operations to date which assist in keeping ports functioning even when industrial issues arise and provides both exporters and importers competitive options. Competitive forces for stevedoring, pilot boats, etc should be encouraged.

**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?**

Investments have already been made to utilise inland ports however associated infrastructure such as rail and road should be strategically planned to allow the best advantage of these and to ensure that competition between ports can thrive. It is

also critical that New Zealand not be totally reliant on a single port for imports or exports as part of risk management for the countries trade movement.

**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?**

Consolidation of ports could be an argument if we looked at just the number however given that the activities of each vary widely, this may be limited. Where ports such as Auckland and Tauranga exist as both a competitive force and a good risk management contingency for the country, we do not see consolidation necessary or desirable.

This does not extend to common ownership of such ports however should that considered. We do not have an opinion on the ownership of these ports as this is a matter for the Commerce Commission to decide should a future move be made on that.

Ports such as Northland and Marsden Point do offer potential consolidation but some of that opportunity may already have been lost due to land availability.

We support longer term agreements for stability and to better allow investment planning however this may not be something shippers would wish to do and we do not believe that this should be mandated.

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

Such negotiations would tend to be somewhat one sided in favour of the shipping lines with ports looking to agree terms that will retain or gain business. This is however competition ultimately but negotiations should not be such that they would breach the Commerce Act if it was allowed to apply. We would support a careful extension of the Act in this regard rather than an all in or all out approach that is achieved under the current exemption.

**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?**

We have answered this in Q59 and in short there is no asymmetry and the Commerce Act restructured would be supported if it was carefully amended.

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

We do not believe there is any serious planning on roading and international freight however in the case of Auckland International Airport, much of the roading infrastructure around the Airport is controlled by the Airport itself. This may not be the case for Wellington or Christchurch or for domestic regional locations.

While roading links are generally good to airports this is driven more by the needs of passenger arrivals and departures than that of freight requirements.

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

This is entirely dependent on domestic aircraft being able to handle or carry air freight. In many cases it is not possible to place larger volumes or size shipments onto a domestic flight to act as a feeder. We have heard criticism from exporters out of Christchurch about the available space as smaller planes were adopted. In particular the reduction that occurred when 767's were removed in favour of 737 and Airbus 320 aircraft and hold space was not suitable for the volumes.

Such situations can result in trucking overnight to Auckland or using a freighter service if available and adding time to the delivery as a result.

It should be noted that aircraft are generally passenger planes and freight is ancillary to the passenger movements and decision making by Airlines will always tend towards passenger planning.

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

It is evident from the figures that in terms of exports we achieve comparative results and it is more about flow of information that could see this improved when delivery to port on a just in time basis for loading potentially occur. Information must currently arrive 24 hours before loading and so margin improvements around this could be achieved.

The area that appears to let New Zealand down is imports however just quoting a figure comparison does not explain the reasons for this transit delay.

Factors that contribute to this include forwarders providing information on a timely basis, both MAF and Customs releases including 6 sided inspections of containers and the actual distance to the importers premises.

The majority of imports come in through Auckland but that does not mean that the containers final destination is Auckland and if it is Wellington or the South Island this may involve rail or road transport to final destination once cleared.

It is also possible that payment has not been made to allow release and therefore additional time is incurred. This type of situation also ignores time of arrival where containers may arrive at the weekend but the importer may not be open or have anyone available to receive the container before Monday.

We do not have any specific answers to how to improve this situation but would recommend that road and rail transport responses in this area be used for best guidance.

**Q64 Does the imbalance of container use create significant costs? What practical measures might efficiently reduce these costs?**

This is a cost that is mostly unique to the New Zealand market. We have season demands that do not match the flow of containers. The influx of containers in the pre-Christmas periods see large numbers arrive in Auckland however in terms of exports this is not the location where those numbers are needed and not all of the

arriving volumes are required. The reverse on volumes occurs around April each year when the exports for horticulture peak and there is insufficient containers in the country. Shipping companies routinely bring in additional empty containers at that point to meet the demands and again those empties that are available must be relocated to the areas of demand.

The only way this might be improved is if greater balance of imports and exports were to occur at the same ports which appears unlikely or with better information on volumes to allow earlier natural build-up of containers for those volumes and of course space for that to occur.

**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?**

While hub and spoke is used extensively in air freight the question of whether this is appropriate for sea freight is open. Firstly you need volumes to ensure a ship is full and secondly you need an appropriate port to move through.

To some extent you see this with Singapore and Hong Kong being hub ports and allowing large TEU ships to pick-up and drop off. Large TEU ships are mostly pick-up for Europe and the US so traffic tends to be one sided.

The issue for New Zealand is how to get full ships from a single New Zealand location and how to consolidate that volume. A natural outcome of this might be larger but less frequent ships although it is unlikely we will ever see 10000+ TEU ships.

This is a problem for delivery times as it would add time and secondly that port would need to have capacity to hand such volumes in terms of consolidation for loading.

The argument for an Australia port has been pushed around for some time, however again this will time delays and more importantly is likely to have costs associated with it. It also exposes New Zealand trade to the vagaries of Australian labour laws and practices and negates most of the value that occurs of the secure partnership arrangements for the US and Japan.

**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?**

We have not seen any particular impacts that we could comment on for this question however Freight Forwarders would be best suited to make such comments.

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

Comment from the Board of Airline Representative's and freight forwarders as we are not in a position to answer this question.

**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?**

New Zealand is a long way from its markets and likewise a small market for imports so access to international freight at an effective cost and with good efficiency is important.

Exporters will look at the costs of shipping to markets and whether the in-market cost will bear those costs. If they don't stack up then those costs will negate that market and the alternatives of licensing or making and shipping from China or elsewhere becomes an option. Over the years the costs of manufacturing in New Zealand combined with the shipping costs has seen a number of manufacturing industries move outside of New Zealand while retaining a head office arrangement here.

We believe that all systems should be geared to assist New Zealand Inc export and to that extent we accept the work being led by Customs on the Trade Single Window will have the greatest opportunity to assist in this sense.

As far as importers are concerned, decisions are always made on whether to bring in a particular item/range or part range based on market volumes. Generally this is not about freight costs however if the volumes are very small then the proportion of the freight cost is such that it may make the viability of the importation unworkable.

**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 scope for this. Work is already underway in a number of forums to achieve this. The Tomorrows Cargo Logistics Group has focused on this for over 6 years. The Customs led "Trade Single Window" is expected to assist in this process as well and we have seen initiatives by the likes of the Ports of Auckland to work with both Rail and Road operators to improve cargo movements.

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

This is an issue of concern when you get more than one operator in the room.

Pricing and the like should remain a no go area but the ability to share information about buying practices, performance, timing and operational costs in general area could be beneficial. The problem is defining the line to which such information may be shared and the structure of that sharing.

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

This is an appropriate mechanism but it is important to look first at what data is already sitting within government systems and only needs to be released.

**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?**

We believe this is largely being addressed through the Trade Single Window in terms of technology however demands for more information earlier by governments around the world will grow and delivery of that information will be critical for exporters in particular.

Smaller markets like New Zealand will be at the mercy of shipping company and airline decisions for its freight logistics and those will be driven by cost reduction and the growth of markets demanding ours or other countries products.

We need to look to where the growth is occurring to understand where changes may happen and in particular growth in Asia versus Europe or the US. Such growth places us closer to our major markets and increases the possibility of point to point shipping rather than hub options via Singapore or Hong Kong.

**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?**

Wide consultation is key for government investments however this is not possible for private investments so when planning occurs that might involve private investment to obtain the best outcomes getting those parties that are directly or indirectly involved to share information is critical.

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

Decentralised strategic planning is questionable in value to a New Zealand Inc. approach and given New Zealand is such a small market and so inter-dependant on export trade to be efficient a centralised approach is more appropriate.

**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?**

This needs to be answered by the various component of the logistics chain and is not a question able to be answered in this submission.

**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?**

This needs to be answered by the various component of the logistics chain and is not a question able to be answered in this submission.

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

No this data must come from the individual sectors.

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

We believe so.

**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 most critical factors are added costs (direct and indirect), barriers to movement created by information requirements, barriers to movement created by security requirements and efficiencies of movements.

Secondary factors include ownership and its impact on investment and productivity, the nature of freight traffic at the various ports and its influences on investment decisions and competition where this is reasonable possible between ports and within ports or airports.