

SUBMISSION

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New Zealand Productivity Commission
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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'S DRAFT REPORT ON INTERNATIONAL FREIGHT TRANSPORT SERVICES

1. INTRODUCTION

- 1.1 Federated Farmers welcomes the opportunity to submit to the New Zealand Productivity Commission's draft report on the Inquiry into International Freight Transport Services.
- 1.2 Federated Farmers congratulates the Commission for producing a draft report which is very comprehensive and robust. In general, the Federation agrees with the draft report's findings and supports its recommendations.
- 1.3 This submission will comment on the main points in the draft report's chapters.

2. COMMENT

Chapter 1: The International Freight Transport Services Inquiry

- 2.1 Freight costs are, as Federated Farmers observed in its submission on the Inquiry's issues paper, a key component of international trade and this is particularly so for New Zealand with its small domestic market and distance from overseas markets. We believe that the Commission's draft report does a good job covering this importance and we strongly agree that *"A more efficient and effective freight system can raise the prosperity of New Zealand's businesses and workers and enhance consumers' purchasing power"* (Finding 1.2).

Chapter 2: The Commission's Framework

- 2.2 Federated Farmers agrees with the Commission that economic efficiency is the key yardstick of performance for the international freight transport system (Finding 2.1). This was the position we took when submitting on the issues paper and our view has not changed.
- 2.3 The Federation agrees that international freight transport can be viewed as a 'system' and that central and local government and the private sector have to play their parts to make the system work efficiently (Finding 2.2).
- 2.4 The Federation strongly agrees that government intervention is only justified where benefits outweigh the costs and that principles of good regulation should be used when designing and monitoring any interventions that are made (Finding 2.3). While we agree that 'market failure' can happen and should be addressed (where the benefits of doing so exceed the costs) it is also important to recognise that it is not always clear-cut where there has been a 'market failure'. Also decisions to address both perceived and real problems can result in 'government failure' with costs exceeding benefits. We agree with the Commission's discussion on this issue.
- 2.5 The Federation agrees with the Commission's interpretation of 'accessibility' (Finding 2.4) – when a good or a service is not supplied even though demand exists and it could be efficiently provided. Although we sympathise with the concerns of submitters who cited accessibility problems, services cannot be provided to everyone regardless of cost – there has to be a willingness to pay

by the user demanding the service or by someone else willing to pay to subsidise the service (e.g., other businesses or the taxpayer).

Chapter 3: International Freight Transport – How it Operates and Performs

- 2.6 Federated Farmers congratulates the Commission on a thorough discussion of the performance of New Zealand's international freight transport system. The Federation is concerned about the considerable slowing of productivity growth in the transport and storage sector and that it does not compare well internationally. This has serious implications for New Zealand's international competitiveness.

Chapter 4: Freight Transport Costs

- 2.7 Federated Farmers also congratulates the Commission on a thorough discussion of freight costs, including the costs associated with transit times.

Chapter 5: Impediments to Competition in International Freight

- 2.8 Federated Farmers agrees that *“competitive pressures provide incentives for transport operators to meet the transport needs of their customers in the least costly ways”*.
- 2.9 The draft report notes that there are a number of the issues where there may be impediments to competition thanks to anti-competitive behaviour or regulatory interventions. These issues are discussed in subsequent chapters.
- 2.10 We agree with the Commission's analysis that coordination problems such as truck queuing at Auckland Airport and limited airfreight capacity are issues for commercial players to resolve.

Chapter 6: Employment Relations at Ports

- 2.11 Federated Farmers agrees with the discussion in Chapter 6 on employment relations. The Federation agrees with Finding 6.1, that is: *“The demand for port services is highly variable, driven by arrival of ships for loading and unloading. Ports face a challenge in managing their capacity to meet those variable demands for service. Those challenges relate to both optimising investment in capital equipment that may be idle for extended periods between ships, and managing access to labour to meet variable workloads”*.
- 2.12 This ‘fact of life’ for ports requires workplace practices that are flexible and responsive but as observed by the Commission there are a number of work practices that impede flexibility and responsiveness, including evidence of unions using their influence to limit competition among port service providers (Finding 6.3 and 6.4). We stand by the comment in our earlier submission, quoted in the draft report, that *“...real productivity improvement will not be possible without significant changes in work practices...”*
- 2.13 Port management and unions must take primary responsibility for improving work practices. To achieve this, relationships should be based on *“mutual trust, shared values and a shared commitment to common outcomes”*, but as acknowledged by the Commission the reality falls *“well short of that ideal”*. Federated Farmers urges management and unions to work constructively to improve work practices but, given the long history of strained relationships,

we believe that for this to happen the Government also needs to take action. The Federation therefore agrees with the Commission's recommendation that the Government should *"review whether existing legislation is sufficient to effectively regulate barriers to competition that arise as a result of union activity"* (Recommendation 6.1).

Chapter 7: Customs, Security and Biosecurity

- 2.14 Federated Farmers stands by the comment made in its submission to the issues paper (and reproduced in the draft report) that *"...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"*.
- 2.15 The Federation is encouraged by the Commission's view in the draft report. We agree with its Finding 7.1 that *"...elimination of border risk is neither feasible nor efficient..."*; with its Finding 7.2 that *"...the Commission does not believe that the level of border risk management is acting as a barrier to the efficiency of the international freight logistics chain"*; and with its Finding 7.3 that *"A risk-based approach is a sound framework for allocating the resources of New Zealand's border agencies"*.
- 2.16 However, we are doubtful about the comment also expressed in Finding 7.2 that *"...the current level of risk tolerance ...is in line with the expectations and preferences of stakeholders"*. This is because some primary sector industries (e.g., bees, grains, pork) feel that current risk tolerance is not strong enough.
- 2.17 With regard to border services cost recovery, Federated Farmers notes Finding 7.6 that *"In general, registration, certification, and inspection fees and charges paid by New Zealand exporters are lower than those imposed on Australian companies exporting similar products"* and Finding 7.7 that *"Fees and charges imposed on New Zealand importers generally compare favourably with those imposed by Australian border agencies"*.
- 2.18 Federated Farmers accepts these two findings at face value but we are concerned about increasing pressure to recover border services costs from exporters and the primary sector. The Federation has always considered that the costs of border services should be met primarily by the Crown (recognising the strong public benefit from border services) and by exacerbators (recognising the risk from imported goods and visitors). The current Government Industry Agreement process to recover costs for surveillance, incursion and response from the primary industries, has been met with resistance from Federated Farmers (and other stakeholders). This has led to MAF re thinking how to progress and it is anticipated that, where possible, exacerbators will be pursued for cost recovery towards incursion responses.

Chapter 8: Investment, Innovation and Dynamic Efficiency

- 2.19 Chapter 8 discusses the impediments to efficient investment and innovation in the international freight transport system. Federated Farmers agrees with the findings contained in Chapter 8. The focus is on impediments relating to institutions, markets and planning processes. This focus is appropriate and many of the impediments are addressed in subsequent chapters.

- 2.20 The issue that is discussed specifically in this chapter is the Resource Management Act (RMA) and the need for reforms to the RMA to get “a more balanced approach to weighing up local and national implications of transport infrastructure projects”.
- 2.21 The draft report notes 2009’s changes to the RMA to reduce costs of consent approvals processes and it is proposing further changes to recognise the national importance of transport infrastructure, central government guidance on transport infrastructure priorities, including ports as a ‘network utility operator’.
- 2.22 Federated Farmers agrees that it is important to ensure that the RMA is not impeding transport infrastructure projects, but the critically important factor for our members is the degree to which property rights of individuals are recognised throughout the RMA processes.
- 2.23 The Federation would not necessarily oppose the changes to the RMA proposed in the draft report but they should in no way compromise the ability of affected individuals to participate in the process, or diminish the degree to which the effects on their property are required to be avoided, remedied or mitigated. Ultimately, many of these problems would disappear if the RMA included provision for full compensation for takings of rights in property and if the Public Works Act provided full and fair compensation for property to be acquired.
- 2.24 Two recent studies by Wilkinson¹ and Evans, Quigley and Counsell² have identified the lack of protection of property rights as a significant problem and both have slated the RMA for its negative impacts on the rights of landowners.
- 2.25 Federated Farmers therefore recommends that the final report’s discussion on the RMA should mention the importance of protecting property rights and that the Public Works Act’s compensation provisions be strengthened to pay compensation above ‘market value’.

Chapter 9: Investment Coordination and Planning

- 2.26 Federated Farmers agrees with the Commission’s findings in Chapter 9. There are risks of under- and over-investment in the freight transport system but there would be significant costs and risks to government taking a central directive planning approach to coordinating investment across the system. The draft report discusses these costs and risks very comprehensively.
- 2.27 We reiterate the answer we made to Question 73 of the Issues Paper, that is: *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*

¹ *A Primer on Property Rights, Takings and Compensation*, Bryce Wilkinson, 2008.

² *Protection of Private Property Rights and Just Compensation: An Economic Analysis of the Most Fundamental Human Right Not Provided in New Zealand*, Lewis Evans and Neil Quigley with Kevin Counsell.

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.

- 2.28 Encouraging all players to operate in a truly commercial and competitive manner would help ensure that the best decisions are made when, for example, planning and investing for bigger ships or moving to a hub-and-spoke model. The problem with ports is that (generally speaking) they are not operating in such a manner, due to governance and ownership issues.

Chapter 10: Governance and Ownership

- 2.29 Federated Farmers agrees with the discussion and findings in Chapter 10. It is critically important that governance and ownership arrangements allow for ports and airports to maximise value (Finding 10.1). They must be encouraged to operate in a truly commercial manner and so deliver the necessary improvements efficiency and productivity gains. As we observed in our earlier submission we are concerned that political considerations have prevented some port companies from making tough decisions.
- 2.30 We agree that a large part of the problem is that council-controlled organisations can have multiple objectives, with a mix of commercial and non-commercial factors. We agree with the discussion on the problems associated with multiple objectives and summarised in findings 10.2, 10.3, and 10.4. We agree with Recommendation 10.1 that the objectives of council-owned port and airport companies should be brought into line with the objectives for state owned enterprises – that is, to be as profitable and efficient as comparable businesses that are privately owned. We also agree with the need to maintain separation between wider council objectives and commercial objectives of port and airport companies (Recommendation 10.2).
- 2.31 Federated Farmers also agrees that benchmark information on port performance should be published (Recommendation 10.3) and that an independent agency should undertake this function (Recommendation 10.4). This is a function that could be usefully undertaken by the Ministry of Transport.
- 2.32 We also agree with the comments about KiwiRail and the need to tighten up its governance arrangements and objectives, especially given that it receives significant taxpayer support (Recommendation 10.5).
- 2.33 Turning to ownership, Federated Farmers agrees with the discussion on ownership, including the comprehensive discussion on the arguments for and against privatisation. In our earlier submission we suggested that councils should be encouraged to increase the share of private investment in their port companies so we agree with the draft report's Recommendation 10.6 that councils should increase the degree of private ownership in ports. The challenge will be how to encourage councils to take this step when over the past decade the degree of private ownership has moved in the opposite direction (e.g., Ports of Auckland). Should the Commission be recommending a more active role for central government in encouraging councils?
- 2.34 We agree that the 'landlord port model' is worth investigation by councils, especially for ports occupying large blocks of central city waterfront land (Recommendation 10.7).

Chapter 11: Regulation of International Sea Freight Competition

- 2.35 In its earlier submission Federated Farmers said that historically “*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*”.
- 2.36 Federated Farmers considers the discussion in chapter 11 to have been very useful and we support its findings and recommendations. International shipping is competitive but we agree that removal of the Commerce Act exemptions would help protect shippers should there be a move in future towards carrier collusion. A transitional period for their removal seems reasonable (Recommendation 11.1). We are pleased that the Commission has supported our suggestion of registration of non-ratemaking agreements under the Shipping Act 1987 (Recommendation 11.2).

Chapter 12: Regulation of International Air Freight Services

- 2.37 In Federated Farmers’ earlier submission we chose not to comment on air freight issues as very little agricultural products are exported by air. We do not have any comment to make on chapter 12.

Chapter 13: Other Regulatory Issues

- 2.38 Brief comment on other regulatory issues follows:
- Subsidy rates: Federated Farmers agrees that it is important to estimate subsidies accurately to reduce inefficiencies and distortions. We believe that revenue collected from road users should be invested in improving and maintaining the roading network and should not be used to subsidise other transport modes. If the Government wishes to support other modes of transport for economic, social, or environmental reasons then it should do so using general taxation revenue based on rigorous tests of value for money.
 - Coastal shipping and cabotage: Federated Farmers agrees that cabotage should not be reintroduced. We strongly agree that coastal services provided by international shipping lines are valuable to New Zealand shippers. The current law provides that international shipping “may only carry coastal cargo as part of an international voyage” and it might in fact be worth considering whether this restriction should be relaxed.
 - High Productivity Motor Vehicles: Federated Farmers agrees that heavier trucks offer significant opportunities to improve productivity but that they are being impeded by a lack of progress in designating and upgrading roads and issues around RUC payment. These need to be resolved.
 - Regulation of airports: No comment.
 - Regulation of seaports: Federated Farmers agrees that port-specific regulation is probably not necessary although we are keen for more public information on port performance.
 - Access regimes for ports and airports: Federated Farmers agrees that increased access to port infrastructure and facilities has potential to improve competition and productivity, and that this is especially so for stevedoring services. We note that the Commission does not consider there to be a case

for stronger access regulation generally and we do not have any specific comment to make other than to agree that there are both costs and benefits to such an approach.

- Information gathering and dissemination: Federated Farmers agrees that there is a case for information on freight movements to be collected, analysed and published, but compliance costs need to be kept to a minimum.
- Emissions Trading Scheme: Federated Farmers remains opposed to the ETS due to its impact on New Zealand's international competitiveness when most of our trading partners and competitors are not facing the same obligations and seem unlikely to in the future.

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.