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**INTERNATIONAL FREIGHT
TRANSPORT SERVICES**

ISSUES PAPER

Submission

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Introduction

This submission provides a brief response to some of the questions raised in the issues paper, but focuses most attention on promoting a wider scope of review. We set this out in our commentary below with a summary of key points on page 6.

We support the need for a review but encourage a wider and more complete perspective that includes factory to Port gate and greater emphasis on influences in the total logistic chains rather than just efficiencies within the chain.

We would welcome the opportunity to discuss and expand on our views directly with the representatives of the Productivity Commission.

Definitions:

How is productivity defined when it comes to freight logistics?

(i) Cost only or a wider definition

The purpose of the Productivity report is presumed to be to scrutinise freight logistics to best advantage freight exporters and importers. *Advantage* in this sense should have a wider application than costs and should consider time to market, care, and at the same time balance short term opportunities against longer term outcomes. The latter is obviously relevant when it comes to investment.

The first statement in the report "Freight costs inhibit trade" (2.1) may be true, but equally it must be recognised that freight systems enable trade. The issues are more complex than just cost.

(ii) A broader definition?

Excerpt from the Productivity Commission's own definition of productivity (refer website)

For countries, improving productivity is about creating more from available resources – such as from raw materials, labour, skills, capital equipment, land, intellectual property, managerial capability, and financial capital. By generating more value through, for example, improved skills, innovation and adoption of better technologies, an economy can perform better. Put another way, lifting productivity has to do with how smartly people combine different resources to produce goods and services others wish to purchase. With the right choices, higher production, higher value and higher incomes can be achieved for every hour worked.

Through that process, the average income and wellbeing of people can increase, along with the range of choices and opportunities available, both individually and collectively

We have a sense that the issues identified in this review have a focus that is narrower than this definition - coming back to cost rather than what may be best for NZ in a broader sense. If this narrow focus recommends less Ports concentrated in major urban cities (as some interests already advocate), it will be to the detriment of the Regional economy and a shrinking of people and investment in Regions; it will create a dependency on rail, a dependency on less shipping services with greater scale but reduced options, and heightened infrastructure dependency within NZ (= far greater risk and greater investment). We therefore ask whether the wider definition of productivity will be achieved. Is a wider impact assessment at least to be considered, if centralization and only short term cost saving is promoted?

Ports – no typical model.

14 commercial Ports operate in NZ. Many business elements are common between Ports, but it should be recognized from the outset that no two Ports are the same. The trade mix varies considerably, the proximity to export or imports are divergent and the physical and geographical circumstances places constraint or advantage to various degrees. Assumptions or generalised statements with respect to Ports must be carefully scrutinised.

Many Ports also have influence outside a simple definition of “freight transport”. Ports are heavily involved in storage, rail services, value added businesses and many elements of transport before reaching the Port terminal.

Trade - Containers vs Breakbulk

The report acknowledges that almost all trade is via Ports. However we make several comments:

A substantive focus of exporters and importers relates to the Container trade. This is also the most dynamic area in the market and it is suggested is the underlying focus of this report by Productivity Commission.

The inclusion of breakbulk trade while explaining the Port overall business, has a completely different matrix and a different set of realities. It is an area where individual exporters or importers forge a direct relationship (partnership) with a Port to create a mutually beneficial outcome. Eg SouthPort and Aluminum production. While the potential for a monopoly to exist given geographic location, it is suggested this is seldom evidenced by customer disharmony or excessive returns. If these points are accepted it is suggested the primary (only?) focus of this report should be on the container trade as it applies to Ports. The inclusion of breakbulk may simply “dilute” the extent of the commissions analysis without adding value.

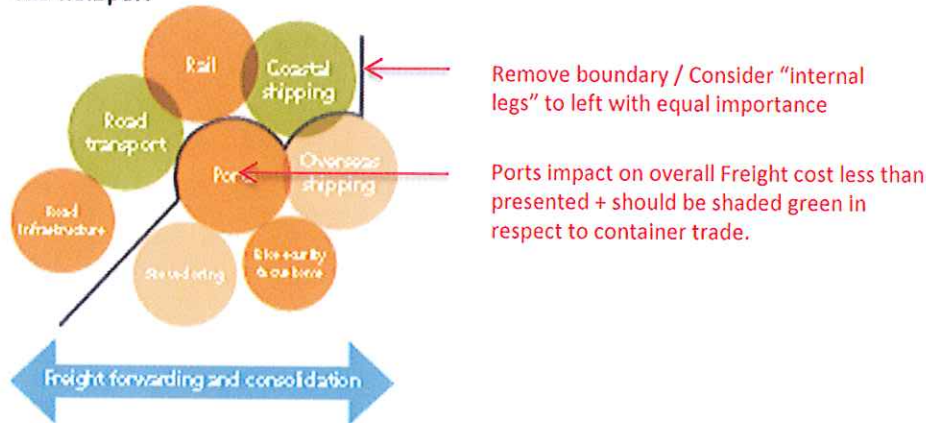
Further it is noted that the investigation only targets International trade. In NZ all freight volume is fused – it doesn’t make sense to exclude domestic trade.

Framework / Scope (ref Fig 2)

The report asserts several points by way of summary in the Framework presented diagrammatically. We challenge these as follows:

- (i) Ports are monopolies – This can be refuted in most areas, but certainly when it comes to Containers. The competition in this trade is keen.
- (ii) A black line has been drawn to define a terms of reference whereby freight efficiency is only considered relevant on the right of this line. This assertion is strongly challenged as per our paragraph below:
- (iii) Ports are the centre of freight logistics – we accept that Ports connect with the substantial majority of all trade, but are a small component of the total chain. Not the influence on cost or productivity as may be inferred by the diagram.

Sea transport



Productivity – what does it mean for Ports?

It appears that many commentators judge the Port productivity and by association, the whole Port business by the speed of its cranes. The recent emphasis by the Ministry of Transport on this aspect alone is a case in point. It is perhaps because it is the statistic most easily measured that it attains this focus. We suggest however, that it grossly distorts the underlying contribution of a Port to NZ's productivity.

(As a side note the recent comparison prepared for MOT demonstrated that NZ compare reasonably in any case)

- (i) Even as a statistic in isolation crane rates can be challenged as a measure. If the true value of a Port is the minimum time it takes to receive a ship and turn it around, then the speed of cranes is a minor element. NZ Ports have limited congestion and especially for Regional Ports will match many (most?) world ports in this regard. eg there are few Ports in Australia where direct access to a berth can be assured. Another example is Shanghai where cranes are high but berth access is severely congested.
- (ii) Crane speeds will be influenced by factors outside the control of a Port such as planning and cargo mix. The complexity of cargo, high percentage of reefers, and many planning arrangements in NZ will never flow in the same way as a large trans-ship Port (Singapore) - (NZ is often used as the place for lines to re-sort or adjust the containers stacked in a ship which is a testament to the efficiency in this country)
- (iii) Productivity should be a measure of speed and cost. All comparisons including those referenced in the report are devoid of cost. Again this completely distorts comparisons with such countries as Australia where costs can be 30% higher.

A shipping line will always seek increased crane speed and it recognised that every hour can be critical in maintaining a schedule or limiting the fuel costs but this conveniently ignores the more favorable total time from arrival that is generally assured in NZ.

However, the key point we seek to challenge is whether the terms of reference take an adequate "helicopter view". It is unlikely that a Port which has cranes that operate 5% faster will dictate Port choice. Port selection is complex and includes many factors outside the

terms of reference in this report. In particular it can be the efficiency of product delivery to a Port or the schedule determination by International Shipping lines, that will influence choice.

In recent years:

- We have seen large shipping lines choose Auckland or Tauranga based on overall storage, logistics costs and total service delivery, rather than productivity at a Port in its limited definition.
- We have seen large Exporter(s) completely change their approach to tender global transport and factor in an overall outcome from factory to customer vs nearest Port to customer previously used as a determinant.
- We have seen a radically different approach to rail investment which has completely overturned existing market dynamics in NZ's transport sector.

In the market today, product is typically moved from one Port to another before or after shipping which from a narrow NZ perspective hardly seems efficient (eg product stored in New Plymouth and shipped out of Napier, eg product stored in Bluff and shipped out of Timaru, eg product delivered in Nelson to be delivered by truck to Christchurch. In our own example, we can point to substantive volumes that are stored at the Port, railed to another Port and then shipped past our entrance twice before transport to destination. None of these examples have anything to do with Port productivity. In each case the internal transport costs would exceed the total Port costs by several times – we therefore ask, are the mechanisms/drivers around this understood? Is this the most efficient for NZ in the long term? Are these not more important questions to focus on?

If productivity is genuinely to be reviewed it needs to factor the whole dynamic of factory to customer. *In figure 2 this means removing the black line.*

In fact it is suggested that improving the understanding of transport and logistics left of the line will have far greater importance for NZ. The areas of focus on the right of the line may be able to be improved, but it is suggested that in the case of Ports or regulation, the change will be relatively small. (the Ports make only a small contribution to the total product transport chain). The ability to influence major shipping lines will also be fraught. Tightening the competition rules could reduce services and options leaving exporters/importers worse off – in any case will the impact be significant? The internal transport / storage / hub selection and logistics on the left of the line is where huge investment is being concentrated by Government and the private sector. Surely this is where NZ needs to scrutinize productivity and efficiency. Is it coordinated? Is the Market the right mechanism to make these in isolation of a plan. Is it understood that these sectors effectively operate as silos. Investments are long (50 year plus) but contracts or security is short (often unenforceable). *We judge these to be questions that should have equal (greater) weight than the issues already posed.*

If the fundamental purpose of this review is to determine what is best for Exporters and Importers it is these factors that have to be considered with a weighting that at least equals the focus on Ports. These questions remain entirely consistent with the terms of reference to find the best International Freight solutions.

Growth

We add further emphasis to the points above by highlighting the impact of growth. Freight transport should double in 20+ years. Productivity will be hugely influenced by this fact and in particular in the sectors to the left of the line. (most Ports and shipping lines could double throughput tomorrow but is the same true of road and rail or coastal ??)

Analysis needs to factor in the reality of investment vs the ability to show a return. It is certain that the development of NZ will be constrained by what is financially achievable. Before 'grand plans' are developed in any sector, an understanding of these constraints needs to be evaluated, and more importantly a clear path set for investment where greatest advantage will be achieved in NZ for the same \$. NZ currently has no overriding plan in the transport/Port sector. Transport modes operate in Silos. Coastal shipping has no status, despite many obvious advantages (efficiency, low capital, flexibility to adapt, low carbon).

NZ productivity will be advantaged or disadvantaged accordingly depending on whether these questions are taken up and acted on. If NZ was a business contemplating the level of investment ahead it would demand these questions be answered.

Summary – key points we make

- * The definition of Productivity needs further debate in the context of Freight Strategy. It is more complex than just cost and short term efficiencies. Can the market be relied upon as the sole determinant for what is best in NZ's future? Will an impact assessment be part of the report?
- * Crane speed misrepresents the true productivity of a Port.
- * It is the total Logistics Chains that need to be reviewed - not just selected components such as Ports or Shipping Lines within, if real value is to be gained from this review.
- * Ports and how they operate can not be generalized.
- * The issues with respect to Ports should be restricted to the container trade only.
- * Are Port's truly a monopoly? – in the context of containers we certainly don't think so.
- * Growth is a key component. It demands a coordinated freight plan if NZ is to optimize investment return and the choices that will be dictated by limited funding. We see no evidence of this in NZ's current freight sector, or from Government who is both a key player and the regulator.
- * The factory to port leg(s) of freight transport need to be analysed with equal or greater focus. (The limitation of issues left of the black line in Fig 2 needs to be removed)

Commission Questions

Q1

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

- As per our commentary above, we suggest implications wider than cost need to be assessed in terms of what is best for NZ in the long term – economic efficiency in the described model does not allow a look at NZ as a whole or to consider how the whole freight sector operates.
- Long term investment vs short term efficiency must be planned
- Integrated planning of all freight modes is more critical than the economical efficiency of each mode in isolation.
- Resilience (security of infrastructure or ensuring a “plan B”) should have a weighting to match efficiency.

Q2

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

The black line in figure 2 should be removed with equal / greater focus on the freight journey from factory to Port. (or Port to distribution point in the case of imports)

NZ’s ability to influence will be greater in this part of the chain – an improved understanding of the drivers at least needs to be recognized.

The total logistics chain dictates choices.

Q3

What components and component interfaces warrant greater attention?

Refer our commentary.

We recommend that the transport modes left of the black line (fig2) be included and that productivity improvements and investment for total logistic chains be considered in greater priority than individual links.

Q4

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

Does the RMA provide adequate balance for the economic needs of the country? Is it understood that process and time create impediments to growth and investment. If trade is to double in the next 20 years will planning facilitate or impede this. We suggest the response to these questions are all negative at present.

The potential indirect cost and threat to NZ's productivity are very real if existing regulation remains. It is hard to see how NZ will make the same progress in the next 20 years as the last 20, if these processes are not streamlined and relevant.

(These comments do not suggest that environmental standards should be relaxed, but the processes are incredibly debilitating if NZ is to advance)

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.

Refer commentary above.

Q6

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

Refer commentary above

The productivity measures of a Port should extend well beyond crane rates to reflect the total ship turnaround. Also it needs to be understood that many Ports are integrated into other parts of the logistics chain, so simple comparison is not straight forward.

More importantly it needs to be recognized that "Ports" are a relatively small component of the whole chain. Productivity improvements for NZ have far more relevance if the whole chain productivities are compared (Factory to Customer). The question then arises as to how these can be developed to best advantage NZ (large and small exporters/importers). Focus on Port crane rates becomes irrelevant in this context.

Q7

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

Refer Commentary above.

Should this remain a focus of the report or does it simply dilute focus on where productivity gains should be made. Ie To focus on the container trade where options are far less obvious.

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?

It is important to first review what is the best freight logistics plan for NZ.

Does investment in rail, road and in coastal options (or lack of) bare the same scrutiny?

Does the fact this investment is made in silos bare scrutiny?

Until these factors are better understood, a question of whether Port investment is appropriate is without context and can not be answered.

It is worth noting however that Port businesses have generally been able to operate and grow without demand on shareholders.

It is also a reality that Port investment is long term (50 years plus) but seldom backed by secure income or obligation. It is suggested that such investment is less likely to be repeated in future as larger players including exporters prove less consistent in their relationships.

Q14

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

No.

However, the question of whether there are too many container Ports remains. Until there is an overarching understanding of freight logistics in NZ and how it may serve growth in the future, this question is premature.

Is there a potential for 2 tiers of container Ports to evolve in NZ – Feeder & Hub? – perhaps?

If the number of container ports does diminish, will this be in the interest of all exporters / importers?

Will a reduction of container Ports best serve infrastructure resilience in NZ?

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?

Refer Commentary above.

It first needs to be understood that Ports have a lower relevance in the total supply chain than many other factors.

In any case, the turnaround of ships in NZ Ports compares reasonably with International Ports – certainly Australia – ie is there evidence of poor productivity in the first place? before asking whether ownership has contributed.

If a lower return has been accepted within the Port sector than comparative commercial benchmarks is there a question whether there is a Regional benefit that justifies ? ie It is important to first ask whether Productivity in a wider NZ context is better served by retaining status quo rather than moving straight to a model that advocates centralisation and the concentration of investment in urban areas.

In any case if the outcome is to provide best service and economic options for exporters/importers has Local Govt ownership been beneficial or detrimental. (it seems self evident it has been beneficial)

In summary we would say our view on this issue is neutral, but suggest a sell down of Local Government ownership in itself may not solve issues raised.

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 Ports 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.

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?

A positive relationship between the employer and employee is fundamental to any business. A Union ideally can enhance this outcome.

However we would comment that such outcomes are achieved in spite of current legislation – not because of.

It is an area that warrants close scrutiny if productivity is to be improved.

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?

We accept that exemptions for Shipping Lines in terms of the Commerce Act may warrant scrutiny, but suggest that a wide perspective needs to be maintained and in particular where NZ stands in the international context. If exporters / importers are to gain the best operational choices a level of cooperation between lines seems necessary.

Our concern as a Port is to ensure that commercial engagement is balanced. A level of consistency should be provided over all sectors (International Shipping Lines / Ports / Exporters) to allow a level of cooperation where value (in operational as well as cost terms) can be added.

We also note the labour restrictions on International shipping lines to operate in a pure coastal sense. We suggest this could be relaxed in a way that still promotes development of seafarers in NZ but doesn't demand all crews require NZ Nationality. The current regulation achieves neither support to an efficient coastal service, nor a developing pool of NZ seafarers

Q23

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

Yes

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?

Refer commentary above.

This is a question that should be expanded to take up a core focus of the issues under review.

It is a question complicated by the fact that Government owns both Road and Rail. As major components of Government infrastructure spend, these modes are vulnerable to Political influence. The potential for conflicts abound.

We further suggest that the modes of rail, road, Ports and Shipping all act in separate silos. Coastal options are not even on the radar. There is a dearth of high level planning. There is no consistency in return on investment between each mode.

NZ is also in danger of overinvesting without capturing the return (eg If hubbing is facilitated by NZ investment it seems certain that the savings/gains will simply be transferred to International shipping lines). The choices for exporters could in fact diminish with costs staying static or increasing. Is such investment especially if derived via Government (road and rail) in the best interests of all or only some importers / exporters. Will this stand scrutiny in 20 years.

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?

As per our comments on Q51, we see value in improving high level coordination and planning across the whole transport sector. We would not support this being applied to Ports in isolation – nor do we think it could be. If applied to the whole sector we would in fact strongly support a strategic plan. (however this should not be read as support for regulatory influence which would be counter productive)

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 has scope, but should not be considered in isolation of many other aspects raised in our commentary, nor should it be forced. Cooperation may provide equal benefits.

These are questions that shouldn't be considered ahead of many others raised – but should flow from an analysis of the total logistics chain and choices to be made.

Clearly there are already examples of vertical integration in place and operating successfully, Port of Tauranga / Metroport / C3 / Tappers is the prime example, but many other Ports can also point to vertical integration.

Q 59

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

With respect to containers we suggest that that Port competition is high to the point that it is detrimental to investment or the long term interests of the wider export/import sector. Shippers clearly influence outcomes as well. Agreements are short term and do not match investment.

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?

Yes - There is asymmetry of bargaining power

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, but this is a practical reality of export production in the regions vs imports to cities, plus the weighting of reefers for exports against dry imports. Asia has also tended to be the main source of imports with Exports more evenly distributed throughout the world.

The market remains the best mechanism to resolve.

However the lack of a coastal solution remains a missed opportunity to reduce such costs.

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?

These are questions that warrant careful consideration with conclusions no means certain.

Potential cost savings can be constructed by consolidating cargo at less Ports but a number of risks and dependencies could prove detrimental in the long term:

- Will cost savings be passed to the exporter/importer – unlikely
- If savings do arise will all exporters / importers benefit
- Flexibility / options will almost certainly diminish
- Resilience (back up options) will almost certainly reduce, both in terms of commercial risk and in terms of infrastructure risk.

(The recent Christchurch Earthquake is a clear example where Timaru was able to handle Lyttelton's shipping across most trades including containers for several weeks. As critically it was able to ensure continuity of fuel supply during this period – we are not sure such vulnerabilities are widely understood)

A plan for NZ should not be considered in isolation of Oceania or world shipping. If for example Australia continues to advance faster than NZ to encourage relatively large ships that link direct to Asia, it seems inconceivable that shipping lines would invest in parallel services to just serve NZ. In this scenario an Australasian solution where NZ with wide coverage links to Australia with smaller ships seems just as likely. In fact this is already well established by many shipping companies. Ie A Hub and spoke solution should not be assumed as the only or best fit for NZ

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.

Ports already cooperate with MOT

Needs to be recognized that such data reflects "what is" – not "what might be", which is far more relevant.

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?

Start a conversation

Do some analysis

Government and Private Sector (Freight representatives) all have to participate

Q74

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

Refer our commentary

Centralised planning is necessary.

This centralised context however needs to be widened to include the choices across the total logistics chain if it is optimize best investment. It is an issue that should be elevated and not just left to the market.

The market can not in itself be relied upon because the government owns road and rail and therefore most of the infrastructure. Government determines investment level and to some extent the rate of return.

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?

As per our commentary summary

The factory to port leg(s) of freight transport need to be analysed with equal or greater focus. (The limitation of issues left of the black line in Fig 2 needs to be removed)

le It is the total Logistics Chains that need to be reviewed - not just selected components such as Ports or Shipping Lines within, if real value is to be gained from this review.

Growth is also a key component. It demands a coordinated freight plan if NZ is to optimize investment return and the choices that will be dictated by limited funding. We see no evidence of this in NZ's current freight sector, or from Government who is both a key player and the regulator.



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