

International Freight Transport Services Inquiry
Attention: Geoff Lewis
New Zealand Productivity Commission
Level 15, Fujitsu Tower
141 The Terrace
PO Box 8036
WELLINGTON 6143

14 September 2011

Dear Geoff

The Ministry of Transport (the Ministry) welcomes the opportunity to make this submission to the Productivity Commission's inquiry into international freight transport services.

To meet the government's objectives of improving New Zealand's economic growth and productivity, we need to have an ongoing focus on improving the efficiency of our transport networks to improve New Zealand's international competitiveness. Better transport links and services can lower costs and enhance connectivity of businesses by expanding markets and improving access to supplier inputs and labour. Increased access and connectivity provides opportunities for enhanced trade, competition, and specialisation, which can lead to long-term productivity gains.

To reduce costs for importers and exporters we need to be constantly searching for ways to achieve efficiencies across and between transport modes. It is essential that our air and sea ports are well-connected to our road and rail networks.

The focus on improving New Zealand's economic growth and productivity also means being careful to respond to predicted incremental changes in transport demand and trends, rather than seeking wholesale mode shift for non-economic reasons. The latter would lead to a deadweight economic loss if it encouraged inefficient transport choices. A key first step is to ensure that the price of using different modes matches actual costs as much as possible. This will mean that demand for different modes reflects the economically efficient choices of individual stakeholders.

The Ministry is also focused on improving public information on maritime and freight transport. This includes research into freight transport futures, to support more informed decision making and investment decisions. Initial work in this area includes the freight information gathering system, which will produce better, more current, information on international and domestic freight flows through New Zealand ports, and the transport modes used for those freight flows.

Work is also underway to review international air transport policy, which covers freight as well as passenger services, with a focus on inter-government air services arrangements.

Enclosed is the Ministry's submission which responds to the specific sections and questions raised in the Productivity Commission's International Freight Transport Services Issues Paper (July 2011) are set out below. We have confined our formal comments to issues which have been the focus of detailed Ministry research or policy thinking. Also enclosed for your information is draft report on container productivity at New Zealand ports (currently IN-CONFIDENCE). A spreadsheet showing New Zealand's Air Services Agreements with other countries has been emailed to you for your information.

Staff from the Ministry have previously met with you and your colleagues to discuss various issues. We look forward to maintaining that dialogue during the rest of the inquiry. Please feel free to contact me or relevant staff, principally David Harper (for port and shipping) or John Macilree (for airport and air freight), if you have questions arising from this submission.

Contact details

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Thank you for the opportunity for the Ministry of Transport to make this submission to your inquiry into international freight transport services.

Yours sincerely

Mark Batt
Acting General Manager, Aviation and Maritime

Ministry of Transport – Te Manatū Waka

Ministry of Transport Submission to the Productivity Commission's inquiry into international freight transport services

The Ministry of Transport's (the Ministry) submission responds to the specific sections and questions raised in the Productivity Commission's International Freight Transport Services Issues Paper (July 2011). The Ministry has confined its formal comments to issues which have been the focus of detailed Ministry research or policy thinking.

Comment on context (Section 3)

In addition to the implications for New Zealand from economic geography¹ useful insights can be gained from considering the network economics of New Zealand's transport links.²

In the case of aviation, changing passenger airliner technology will impact on the airline network that serves New Zealand and its ability to supply air cargo transport. In particular this will come about through the introduction of the more efficient Boeing B777-300ER³ (which has greater cargo capacity than the B747-400 aircraft that it is replacing) and the ultra-long range B787-9 and Airbus A350⁴.

Although new technology freighter aircraft are being developed (for example the B747-8F), these are unlikely to play a significant, direct role in meeting New Zealand's air cargo transport demand. Changing air traffic control technology can also be expected to boost efficiency, although New Zealand has already made significant gains with respect to international flights.⁵

Greenhouse gas emission-related issues are becoming increasingly significant with respect to international transport. While there is an alignment with the actions being taken by transport operators to reduce fuel costs, including by adopting new technology, some governments (notably in Europe) have focussed on a blunt use of what purport to be environmental measures as a means of raising revenue. Such action taken against passenger airlines will have an indirect impact on their freight capacity. It may also arguably include an element of protectionism.

Changing airline business models are impacting on the supply of air freight capacity (for example, the growth of "no frills" airlines that focus on passenger transport, seek to minimise aircraft turnaround times and show little interest in making belly-hold space available for air cargo). Web-based sales, offering greater consumer choice,

¹ See, for example, [The Contribution of Economic Geography to GDP per Capita](#) by Hervé Boulhol, Alain de Serres and Margit Molnar, OECD

² See, for example, [the air connectivity index](#) developed by World Bank researchers

³ <http://www.boeing.com/commercial/products.html>

⁴ <http://www.airbus.com/>

⁵ <http://www.airways.co.nz/aspire/>

are leading to greater demand for express delivery of goods by air. In this regard, the presence of global operators such as FedEx, UPS, DHL and TNT in the New Zealand market is notable.

The product mix of New Zealand's exports has implications for air freight demand as do directional imbalances in trade carried by air, notably with China.

In aviation, it is important to keep in mind that transport is not only a facilitator of trade, but it can also be a high-technology services export in its own right with a relatively impressive productivity growth record.

Rather than being able to point to any particular area of inefficiency, to offset the transport challenges of distance and scale we need logistics chains that are performing optimally. To quote John Karsada, the co-author of *Aerotropolis*, "Individual companies don't compete. Supply chains compete. Networks and systems compete."

Ports and within-port activities (Section 4.1 and 4.2)

Q5 – Q18 Questions on port competition, efficiency, profitability, investment and rationalisation, and ownership

Attached is a draft report about container productivity at six New Zealand ports. The data is IN-CONFIDENCE at this stage, and the report is subject to further change. We believe the data shows, among other things, that:

- looking at the 'crane rate' measure on its own is not sufficient to assess the overall productivity of a container terminal operation
- while the average crane rate for New Zealand ports has been static for the last two years, average container productivity for servicing ships has grown about four percent per annum
- container productivity performance across New Zealand is mixed, and appears to be influenced by a range of factors involved in container terminal operations
- the container productivity of New Zealand ports compares well with Australian ports, and seems to compare about average for a broad selection of other international ports.

The Ministry considers that the supply of port facilities in New Zealand should be looked at in terms of supply chain circumstances for New Zealand businesses, rather than at arbitrary per capita comparisons across countries. One of the circumstances for New Zealand is that, due to geography and a lack of scale in freight volumes for domestic transport, it is frequently more economical 'to move the ship to the cargo than move the cargo to the ship'. Having multiple ports facilitates competitive behaviour and supply chain optimisation thereby helping to reduce overall supply chain costs. The Ministry believes that a good portion of New Zealand's current international trade may depend on the close proximity of local ports.

We note that alternative governance models, such as 'contracting out' and 'landlord' governance arrangements, are possible under the Port Companies Act 1988. Regarding competition issues, previous studies into market power issues with New Zealand ports have concluded that the ports sector is generally competitive and

does not require industry-specific regulation. We are not aware of any compelling evidence for further economic-regulatory intervention in respect of New Zealand ports.

International sea freight (section 4.3)

Q19 – Q26 Questions on competition, collaboration, and regulation

Irrespective of attitudes within New Zealand, collaborative arrangements by international shipping are an international 'fact of life' for global trade. There are a wide range of such arrangements, some of which have no connotations of market power issues.

We are not aware of any evidence in New Zealand's situation that these types of collaborative arrangements have increased freight rates above market levels, as opposed to simply reflecting changes in market rates. We believe, in any case, that changes in global shipping markets (as seen with the 2008/09 global economic recession) have far more impact on freight rates for New Zealand shippers than the particular collaborative arrangements for the international trade lanes involving New Zealand's exports and imports.

Collaborative arrangements are certainly part of international shipping, but they are not the whole of the picture. We consider that the observed behaviour of international shipping lines in New Zealand shows a lot of competitive activity. These observed behaviours include the following.

- At least half of the world's top international container lines are doing business in New Zealand, despite New Zealand's total international trade being a mere 0.2 per cent of total international trade.
- Many international lines visit multiple ports in New Zealand (to gain as much market share as possible), rather than making better use of their vessels by calling at only a few ports.
- Lines chase more business by offering more economical supply chain solutions for New Zealand businesses through 'moving ships to cargo instead of cargo to ships'.
- Whenever lines reduce or cease services to a port, it is common place for other lines to commence services ('fill the vacuum') to that port within about three to nine months.
- There have been increased shipping services to New Zealand recently by four international lines.

We understand that the White Paper on New Zealand Shipping Policy, December 1983, gives the background for the Shipping Act 1987. There have been no formal investigations under that Act.

We consider that the appropriate regulatory institution for international shipping should depend on the purpose of that regulation. Perhaps a better question for the Commission to consider could be – what should be the purpose of any economic regulation of international shipping?

The Ministry considers that additional economic regulation of international shipping could potentially make the New Zealand economy worse off. This is because of the following.

- New Zealand needs international shipping, but New Zealand's international trade is only a very small proportion of global trade.⁶
- Collaborative arrangements are the norm for international shipping (although each line will always assess whether its best interests are served through cooperation, acquisitions or internal growth).
- If New Zealand were to impose requirements on international shipping that were more restrictive than those applied elsewhere in the world, it would in effect be expecting international lines to change their standard ways of operating throughout the rest of the world for the sake of relatively minor cargo volumes in New Zealand.
- There is a risk that any additional compliance costs could discourage some shipping lines from coming to New Zealand. We think there may be some examples in international air services (Cargolux and Garuda International) which show that regulation of international transport can be a contributory factor affecting choices about operations to New Zealand.

Therefore, there is a potential for increased economic regulation of overseas shipping in New Zealand to make the New Zealand economy worse off by reducing its access to international shipping services. This in turn would tend to reduce competition between international shipping services to New Zealand. The Ministry supports the view that 'more supply' is better than 'more regulation' in promoting competition between shipping lines.

Other maritime related questions from Sections 5 and 6

Q57 & Q74 Questions on centralised vs decentralised planning

The government's policy is that port investment decisions are best driven by market interaction between shippers, shipping lines and ports. This view is supported by some independent studies (Long term sea freight scenarios, NZIER, September 2010⁷).

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?

This issue was considered in the NZIER report on long-term sea freight scenarios. The report analysed whether hubbing scenarios would improve efficiency across the New Zealand economy compared to the status quo. The hubbing scenarios considered were a 'two port' hubbing strategy in New Zealand, and the hubbing of New Zealand export and import containers through Australian ports.

⁶ Merchandise exports are about 21 per cent of New Zealand's Gross Domestic Product, but New Zealand's international trade is only about 0.2 per cent of global trade.

⁷ <http://nzier.org.nz/sites/nzier.live.egressive.com/files/Freight%20futures.pdf>

The study found that these hubbing scenarios were unlikely to improve efficiency due to the risks of extra internal transport costs, extra delays at ports, and reduced competition in ports and shipping markets.

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

The Ministry is working on increasing information about maritime freight transport. This includes the development of the Freight Information Gathering System (FIGS). FIGS is a Ministry project to collect detailed information on domestic and international freight movements in New Zealand. Initially the project will collect information on container movements in 10 ports, it will then be expanded to look at bulk freight movements through ports and potentially go deeper into the domestic supply chain. The Ministry has also undertaken work compiling container productivity data from six New Zealand ports (Appendix two).

While there is excellent data available on international air passenger movement collated by Statistics New Zealand from passenger completed arrival/departure cards, the Ministry has also been looking at what the gaps are in available air transport data.

Airports (Section 4.4 of Issues Paper)

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?

We are unaware of any problems at New Zealand's main international airports due to a lack of investment in airport infrastructure for cargo handling. There has been land available close to the airports that has been used to build facilities for freight forwarding activities (Wellington, however, is more constrained in this regard).

Capacity constraints at Auckland and Christchurch airports generally relate to issues with peaks in passenger demand, and border and security processing times through passenger terminals. Slot co-ordination is in place at Auckland, Wellington and Christchurch. Globally IATA facilitates this slot coordination activity. As well, it is important to note that airport noise curfews (for example, at Sydney), when combined with time zone considerations, can impact on the efficient use of aviation resources around the world.

Issues related to access to airports have recently been (in Auckland) or are being (in Christchurch and Wellington) addressed by major investment in new road infrastructure.

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 has to be recognised that the bulk of air freight capacity operated to and from New Zealand is a by-product of decisions made by airlines about likely passenger demand. While airports are playing an increasing role in seeking to attract new airline operations to their airports, it should essentially be a commercial decision for airlines as to what routes and frequencies that they operate.

There are limited roles for governments in this. In addition to safety and security considerations, governments have a role to play in removing barriers to entry by negotiating air services arrangements. Currently, while inter-government air services arrangements might in some cases potentially act as a constraint, we are aware of little evidence of this and have worked to future proof these arrangements well ahead of demand. In setting priorities for this the views of airports need to be taken into account. There is also a role in promoting passenger demand by agencies such as Tourism New Zealand, and it is increasingly recognised that this work can be done in conjunction with airports.

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?

A benchmarking exercise is carried out by the Air Transport Research Society. For its Global Airport Benchmarking Report summary see: <http://www.atrsworld.org/airportawards.html>.

A key risk to note, however, with bench marking is that different airport charging structures can impact on the results. For example, the above mentioned survey probably unreasonably rates Wellington Airport as a poor performer.

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?

In this regard the Commission should note the activities of airport ground handlers which are important to the level and quality of competition. In general, because of economies of scale, the largest airline or an independent company will tend to dominate such activities. In New Zealand's case this is Air New Zealand but there are also competing ground handlers, such as Menzies⁸.

We are aware of particular recent problems with respect to Christchurch airport and aircraft refuelling services.

In free trade negotiations New Zealand has been seeking to have coverage extended to ground handling and other airport-related services.

⁸ See: <http://www.menziesaviation.com/>

International Air Freight (Section 4.5 of Issues Paper)

Q35 To what extent is the international air freight industry competitive?

Because the bulk of air cargo is carried in the belly holds of passenger aircraft and the fact that airlines operating dedicated freighter aircraft have found the New Zealand market uneconomic, we think that the level of competition is relatively high given the small size of the New Zealand international air cargo market in global terms.

The Ministry has undertaken some detailed analysis of individual country passenger markets (using the HHI measure of market concentration). As might be expected, this shows a significant relationship between distance from New Zealand and the level of concentration, with high levels of market concentration in some New Zealand-South Pacific markets and particularly low level of market concentration in the Europe-New Zealand market.

We note that only three of the long-haul city pairs from New Zealand have direct airline competition (Auckland-Los Angeles, Auckland-Hong Kong and most recently Auckland-Singapore). However, this may be less significant with respect to air cargo as many indirect routings are possible provided that perishable cargo is correctly handled at transshipment airports.

With respect to dedicated freighter services Qantas operates a once weekly B747F service on the route New York-Chicago-Honolulu-Auckland-Melbourne and daily B767F trans-Tasman services.

Tasman Cargo Airlines (in conjunction with DHL) operates a B757F five times per week between Auckland and Sydney.

Singapore Airlines Cargo operates B747F aircraft three times per week between Singapore and Auckland via Australia, and is increasing the frequency of these operations to four times per week from 16 September 2011.

Air New Zealand ceased its round-the-world B747-400F service (the aircraft had been wet leased from Atlas) from the end of March 2009. The routing of the service, which started in 2005, was Auckland-Melbourne-Shanghai-Frankfurt-Chicago-Auckland. The lack of air cargo northbound from Australasia to China had been a particular challenge for the economics of the operation.

European freight airline Cargolux suspended its B747F freighter service to Australia and New Zealand with the last flight operating on 28/29 August 2010.

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?

We are aware that changing airline business models means that some passenger airlines, in order to minimise costs by decreasing turnaround times, are not focussed on carrying cargo in narrow-bodied airliners. In this regard we note that cargo carried by the B737 aircraft type, popular with “no frills” operators, must be loaded by hand.

We are also aware anecdotally that as passenger demand dropped during the recent global recession and passenger operations were temporarily reduced, notably to Japan and the United States, there was a significant reduction in cargo capacity with implications for some exporters. The level of cargo rates that these exporters were prepared to pay would probably not have justified them chartering freighter aircraft. It is important to note that the average value of New Zealand's exports per kilogram is significantly below that of New Zealand's imports by air.

Non-scheduled (charter) flights by freighter aircraft meet the limited demand for special cargoes as varied as horses, cars for winter testing and Americas Cup yacht hulls. These operations are approved under section 87ZE of the Civil Aviation Act 1990. A key consideration is the safety of the proposed operation as it is common around the world to convert older airliners to carry freight or to use ex-military freighters.

Q37 How do bilateral air services agreements affect the accessibility and efficiency of air freight services available to New Zealand exporters and importers?

We are not aware of any foreign carriers who wish to provide freight services and are prevented from doing so by an absence of traffic rights. There are unutilised rights available in many of New Zealand's air services agreements (ASAs).

The pattern of traffic rights required for dedicated freighter services, which are often multi-stop can be far more complex than that needed for most passenger services which are usually based around a carriers' home country.

On the other hand, parties are often more willing to liberalise for cargo than for passenger services. New Zealand has nine agreements that specify separate cargo rights. Seven of these provide for airlines to exercise 7th freedom⁹ rights for cargo but not for passengers.

Freight services, particular one-off or large/unusual loads are often operated on a non-scheduled basis (under Article 5 of the Chicago Convention 1944 or separate provisions in open skies agreements).

Q38 &39 Questions on the current regulatory treatment and responsibilities of the Commerce Act vs. Civil Aviation Act

The IATA system and other cooperative arrangements whereby a number of carriers agree a fare and other matters for a journey (particularly multi-stop journeys) can benefit consumers but may require authorisation under the Commerce Act before they could proceed.

Some of these factors are diminishing in importance over time. As more open skies agreements are put in place, pure aero-political considerations may become less important. The IATA tariff setting system, which was a major consideration in putting in place the regime is being changed to meet the concerns of competition authorities around the world.

⁹ For the freedoms of the air see: http://www.icao.int/icao/en/trivia/freedoms_air.htm

The New Zealand regime was put in place more to deal with the IATA system than with code-sharing arrangements or joint business agreements, which, while not unknown, were less common in 1986 than they are now.

Additionally in the mid 1980s all tariffs, including unilateral tariffs that did not involve cooperation between carriers, were subject to approval. This is no longer the case.

Therefore some modernisation of the regime may be desirable.

The range of regimes overseas¹⁰ demonstrates that a robust system is possible with either the aviation authority or the competition authority taking the lead. However a process whereby both streams of expertise are taken into account would seem desirable.

Any change of responsibility would require careful consideration of matters such as grandfathering of existing approvals, whether tariff approvals should be subject to different treatment than integrated alliances, and whether categories of arrangements should be considered for block exemptions.

Any regime also needs to take into account compliance costs and the fact that such arrangements often involve the competition regimes in two or more different jurisdictions.

As with shipping, care would need to be taken to ensure that any regime does not discourage international airlines serving the New Zealand market. Although more relevant to passengers, the Ministry is of the view that maintaining competition in the New Zealand market between the three global airline alliances (Star, Oneworld and Skyteam) is now a key consideration.

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?

The Ministry has had virtually no recent involvement in issues relating to the cargo commission regime. Our understanding is that, except for one-off cargo shipments and interlining, cargo rates are largely set by negotiation. This is not surprising given the general surplus of belly-hold freight capacity. Although comprehensive work was done by the Ministry in the early 1990s that led to the approval of the then IATA passenger-related system, the same was not done with respect to the IATA cargo system.

It should be noted that the related passenger commission regime is interrelated with bonding arrangements for travel arrangements that are part of New Zealand's limited industry-specific consumer protection regime.

¹⁰ For examples see:

http://www.minterellison.co.nz/publications/Special%20Report_Airlines%202009%20-%20World%20wide%20competition%20law%20review.pdf

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?

Section 90 is still used to approve some tariffs filed by airlines, although these primarily relate to the carriage of passengers rather than cargo. Decisions are generally made under delegated authority by an official in the Ministry of Transport. The section's use is far less than it was in the past.

The origin of the section in part relates to the provisions in many inter-government air services agreements governing the regulation of tariffs. In the 1940s governments agreed to permit the IATA tariffs system to operate subject to governments having the right to approve or not approve the tariffs.

While New Zealand has sought to minimise requirements in air services agreements with respect to tariffs regulation, many of the agreements (which have treaty status) to which New Zealand is a party still include specific provisions and sometimes detailed provisions relating to tariffs. A small number of these provisions explicitly refer to the IATA rate-setting mechanism.

Until the early 1990s the Ministry of Transport employed staff specifically for tariffs work. At that point all international airlines serving New Zealand were advised by the Ministry of Transport that, regardless of the provisions in air services agreements, they were no longer required to file tariffs except for full fares (essential those used for interlining set through the IATA process). Airlines can continue to do so, however, and if approved this provides an exemption from the Commerce Act. With respect to IATA resolutions, Air New Zealand files on behalf of other IATA carriers.

A key advantage of the IATA system is that it provides for comprehensive interlining between member airlines so that the global network is easily available to shippers.

With jet fuel prices being so volatile in recent years, fuel surcharges have been used to rapidly adjust the thousands of rate levels that exist.

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?

Illegal collusive behaviour falls within the purview of the Commerce Commission who would have a view based on recent experiences. As the action by the Commerce Commission with respect to cargo rate setting is still before the New Zealand courts it would be inappropriate for the Ministry to comment at this time.

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?

Exporters and Importers themselves are probably better placed than the Ministry to answer this.

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

Reasons why it is necessary to have separate regimes for air freight and sea freight include the following.

- There is no equivalent to the bilateral and multilateral Air Services Agreement framework and accompanying international obligations related to air freight with respect to sea freight.
- As much air freight is carried in the belly hold of passenger aircraft, regulation of air freight needs to be considered alongside regulation of passenger services.

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?

The different regimes in place around the world show that a range of options are possible, and that many countries consider a desirable process one that allows decision makers to draw on both competition law and aero-political expertise.

It should be noted that the USA uses its ability to grant anti-trust immunity to foreign airlines as leverage to secure 'open skies' international air transportation agreements.

Biosecurity and Customs (Section 4.6 of Issues Paper)

Q46 –Q49 on Customs and biosecurity costs

A distinction needs to be made between 'border security' and 'transport security' principally in aviation. Border security is aimed at preventing the import or export (to other countries) of prohibited or other risk items and is the preserve of Customs and MAF. Both agencies therefore have an interest in clearing inbound or outbound freight by air and sea transport. MAF also assists NZ exports through its food safety certification of products for human or animal consumption.

Aviation and maritime security controls at New Zealand's airports and ports stem from international obligations on New Zealand to protect those modes of international transport from unlawful interference such as terrorism. The most visible example is aviation security screening of travellers and their baggage at airports.

In relation to air cargo security, New Zealand has adopted International Civil Aviation Organisation standards that require air cargo agents to be regulated (by the Civil Aviation Authority) and places responsibility on the Regulated Air Cargo Agent (RACA) for ensuring a secure supply chain until the cargo is delivered to the air carrier. The air carrier then assumes responsibility including for any cargo not forwarded through a RACA. Thus supply-chain security costs are incurred by industry participants. The Aviation Security Service undertakes some screening of US-bound air cargo to meet specific US requirements *on air carriers* but is recompensed for this screening, and the task could be performed by an alternative provider if the air carrier wished.

There is currently no requirement from a maritime security perspective for sea cargo from NZ to be security screened. It is, however, subject to border security requirements.

Air Freight Interfaces (Section 5.3 of Issues Paper)

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

The time costs associated with international air freight are not specifically incorporated into current road infrastructure planning (as set out in the NZ Transport Agency's Economic Evaluation manual¹¹). However, the importance of links to airports are generally recognised in various strategic documents and when considering projects that directly support access to airports. Linkages to airports are one focus of attention in the Roads of National Significance and the State Highway Classification System¹².

The NZ Transport Agency is looking at how its methodology for evaluation of transport projects could be developed to include the value of freight as a factor when calculating the average value of time or the reliability of travel time. The NZ Transport Agency would be best placed to comment on this in more detail.

We do not think that the time costs of international air freight should be incorporated into general road infrastructure planning. In part because air freight vehicles are expected to be a small part of the freight task on most roads and because of the onerous data requirements in identifying air freight related vehicle trips.

¹¹ See <http://www.nzta.govt.nz/resources/economic-evaluation-manual/volume-1/index.html> and <http://www.nzta.govt.nz/resources/economic-evaluation-manual/volume-2/index.html>

¹² See <http://www.nzta.govt.nz/planning/process/state-highway.html#planning>

Appendix 1: Additional suggested reference sources

Note: Inclusion of the following reference sources in this submission does not necessarily imply endorsement of their contents.

Maritime reference sources:

New Zealand

White Paper on New Zealand Shipping Policy, December 1983 – relevant to the origins of the Shipping Act 1987

Long term sea freight scenarios (September 2010) by NZIER (see: <http://nzier.org.nz/sites/nzier.live.egressive.com/files/Freight%20futures.pdf>)

Port Performance and Ownership - An assessment of the evidence (August 2010) by NZIER (see: <http://www.businessnz.co.nz/file/1947/100813%20Port%20Performance%20and%20Ownership.pdf>)

Understanding Transport Costs and Charges, Phase 2 - Transport Costs in Freight Logistics (November 2010) by the Ministry of Transport (see: <http://www.transport.govt.nz/research/Documents/UTCC-Phase-2-Transport-and-freight-logistics-final-report-Nov2010.pdf>)

Australia

Review of Part X of the Trade Practices Act 1974: International Liner Cargo Shipping (2005) by the Productivity Commission (see: <http://www.pc.gov.au/projects/inquiry/partx/docs/finalreport>)

World Trade Organization

See: http://www.wto.org/English/tratop_e/serv_e/transport_e/transport_maritime_e.htm

Research

Ocean Shipping Cartels: A Survey (2004) by William Sjoström (see: <http://www.bepress.com/cgi/viewcontent.cgi?article=1046&context=rne>)

Liner Shipping Competition Policy: Non-Ratemaking Agreements, a study for the APEC Transport Working Group (May 2008) (see: http://www.apec-tptwg.org.cn/new/Archives/tpt-wg32/Maritime/Final/08_tpt_Liner_Stage1.pdf and http://www.apec-tptwg.org.cn/new/Archives/tpt-wg32/Maritime/Final/08_tpt_Liner_Stages%20and3.pdf)

Aviation reference sources:

Australia

The Productivity Commission released a [Final Report on International Air Services](#) and its site also has [submissions](#) and [transcripts](#) from the related hearings.

The Government's response to the Commission's final report released on 3 June 1999 (see: <http://uat.pc.gov.au/projects/inquiry/airserv/mediarelease1>).

The Australian National Aviation Policy White Paper released on 16 December 2009 (see: <http://www.infrastructure.gov.au/aviation/nap/index.aspx>).

Canada

The Canadian House of Commons Standing Committee on Transport undertook a study on Air Liberalization and the Canadian airports system (see: <http://www.parl.gc.ca/CommitteeBusiness/StudyActivityHome.aspx?Cmte=TRAN&Language=E&Mode=1&Parl=38&Ses=1&Stac=1147112>).

Blue Sky: Canada's New International Air Policy was issued on 27 November 2006 (see: <http://www.tc.gc.ca/eng/policy/ace-consultations-blueskypolicy-749.htm>).

New Zealand

In 1998 the then Minister of Transport released an updated statement of New Zealand's International Air Transport Policy (see: <http://www.beehive.govt.nz/feature/international-air-transport-policy-new-zealand>).

Analysis of Air New Zealand/Virgin Blue application for authorisation of a trans-Tasman alliance (December 2010) by the Ministry of Transport (see: <http://www.transport.govt.nz/ourwork/air/airnz-virginblueallianceapplication/>)

United States of America

The Statement of United States International Air Transportation Policy released on 3 May 1995 (see: <http://www.airlineinfo.com/Sites/DailyAirline/web-content/treaties/usintlstatement.pdf>).

International Civil Aviation Organization (ICAO)

Manual on the Regulation of International Air Transport Doc 9626

Policy and Guidance Material on the Economic Regulation of International Air Transport Doc 9587

World Trade Organization

Extensive material from the two mandated reviews of air transport services (see: http://www.wto.org/english/tratop_e/serv_e/transport_e/transport_air_e.htm).

Competition authorities and IATA

The IATA tariffs setting system has received intense scrutiny by competition authorities, including the European Commission (EC), the Australian Competition & Consumer Commission and the US Department of Transportation (see in particular: <http://www.accc.gov.au/content/index.phtml/itemId/762379>, <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/01/694&format=HTML&aged=0&language=EN&guiLanguage=en> and <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/01/1433&format=HTML&aged=0&language=EN&guiLanguage=en>).

Research

Infrastructure, Competition Regimes, and Air Transport Costs: Cross-Country Evidence by Alejandro Micco and Tomás Serebrisky (see: http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2004/07/29/000090341_20040729135523/Rendered/PDF/wps3355.pdf).

Air Transportation Services: Both a Trade Commodity and a Transaction Cost in Trade (2010) by Kenneth Button (see: <http://www.oecd.org/dataoecd/3/44/46265734.pdf>)

Liberalising Air Cargo Services in APEC by Massimo Geloso Grosso, GEM Working Paper, December 2008 (see: http://www.gem.sciences-po.fr/content/publications/pdf/GelosoGrosso_Air%20cargo_122008.pdf).

Centre for Air Transport Research, University of Otago (see: <http://catr.otago.ac.nz/>).