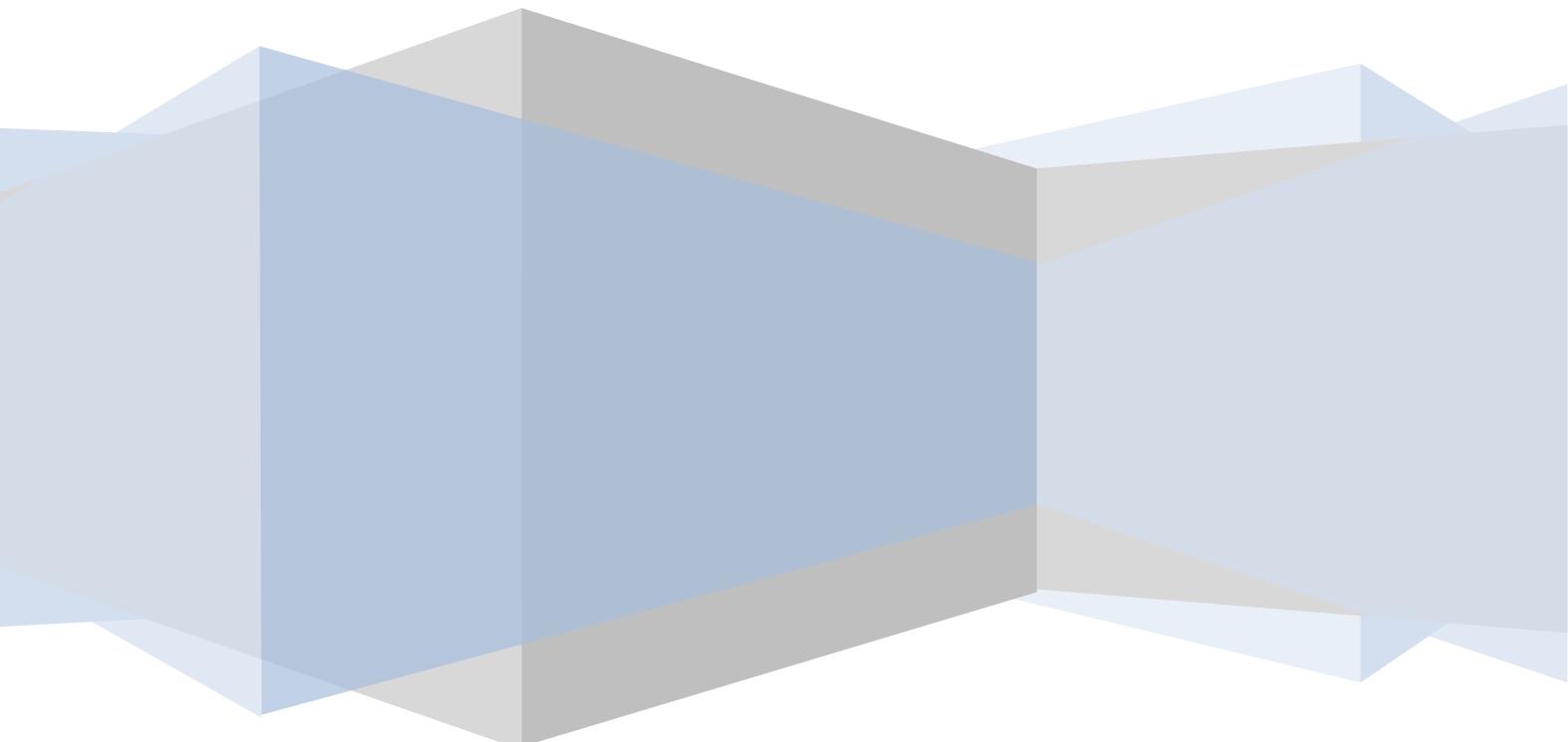


PORT OF NAPIER

www.portofnapier.biz

Submission:

**Productivity Commission's
International Freight Transport
Services Inquiry (January 2012)**



Summary

The Port of Napier Ltd broadly supports the Commission's *Draft Report*, in particular noting:

1. That the overall content represents a good understanding of the international freight transport sector.
2. The need for a comprehensive and integrated *Final Report*, one that avoids Recommendations in isolation.
3. Care needs to be taken when comparing port productivity numbers. Napier as a New Zealand mid port call is tasked with less efficient work patterns compared to first and last load ports.
4. Napier is the only one of the six analysed New Zealand ports to have fully recovered its cost of capital in each of the last four financial years.
5. There is an urgent need for the removal of restrictive work practices within New Zealand ports.
6. Border agencies need to embrace performance improvement in line with all other parts of the complete freight "system". Much more can be done by border agencies to match the speed and efficiency of Singapore for instance.
7. The need and consequential Recommendations for RMA reform, including that which suggests adding seaports to the list of network utility operators.
8. There are multiple pathways for efficiently funding the handling of larger container vessels that are not linked solely to hub operations in one New Zealand port.
9. Our generally supportive stance on the governance related Recommendations.

Introduction

1. The Port of Napier Ltd welcomes the opportunity to make a submission to the Productivity Commission's Draft Report on its inquiry into International Freight Transport Services.
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Detailed Responses

F3.2

Since the end of the 1990s, productivity growth in New Zealand's transport and storage Available indicators suggest that New Zealand's container port performance is no less and possibly better than in Australia. However, within New Zealand there is notable variation between the ports, with Tauranga being the strongest performer.

The opening paragraph of the corresponding commentary notes "some caution is needed in interpreting these partial productivity measures given that they capture only part of the total picture".

In light of this appropriate advice we highlight that Figure 3.7 (page 37) makes no reference to the form of craneage used nor is it made clear that Napier in New Zealand context is the only one of the seven ports to use mobile harbour cranes. The remaining six ports use gantry or quay cranes.

The analysis in the draft report misses a vital point. Container terminal productivity is also directly related to port rotation order.

A first and last load port in New Zealand has the distinct advantage in that the majority of cargo is discharged at the first load port (being primarily imports) and loaded at the last load port (being primarily exports) are exchanged from or to locations above deck.

Crane drivers have full visibility and importantly do not have to contend with many, if any removal and subsequent reinstatement of hatch lids (which provide access to beneath deck holds).

Crane downturn occurs when hatch lids are removed and any cargo exchange is made more difficult due to having to move boxes further in or out of the holds of vessels. Working at night is often 'blind', necessitating use of cameras by crane drivers.

Auckland and Tauranga as New Zealand's main first and last load ports therefore are presented with vessels far more conducive to achieving high productivity.

Napier as a solely mid rotation port call has to constantly deal with hatch lid removals, often more than 20 unpaid and unproductive moves per vessel. The consequential time lost and challenge of stowing most cargo beneath deck given its heavier weight profiles has a degree of difficulty far higher than say stripping off deck at a first port of call (as does Auckland for instance).

We also suggest there may be a direct link between severe levels, productivity, financial performance and what customers are prepared to pay for.

The capital cost of mobile harbour cranes is lower than gantry cranes. Napier is the best performing port on an EVA basis as per table 3.10 (page 43). It seems that to achieve improved productivity gantry cranes are more effective, yet the six New Zealand ports using gantry cranes all experienced negative EVA's in each of the last four financial years.

We would further suggest that 2008 be referenced to the Global Financial Crisis (GFC). Table 3.10 notes the simple average EVA for 2008 is -3.4%; we contend that the majority of New Zealand companies suffered a negative result due to the GFC. The 2009 result may also be impacted in a similar manner

F3.6

The six port companies analysed by the Commission recorded mostly negative Economic-Value Added from 2008 to 2011, although there was a trend to less negative figures. This suggests that the port companies have not recovered their cost of capital.

Given that Napier has a balance date of 30 September (and all other ports are 30 June), Tables 3.8, 3.9 and 3.10 were compiled with Napier data that was one financial year out of step with the five ports noted.

We can now provide the data for the missing year and correct the reporting anomaly to provide Napier EVA results in line with the same financial reporting year for all other ports.

Table 3.10 for Napier should now read:

2008	2009	2010	2011
1.0%	1.7%	0.8%	0.6%

The calculation of the 2011 year needs to be corroborated with the Productivity Commission to ensure Napier's method is the same.

In line with suggested moves for wider commercial ownership, the Port of Napier believes the MOT should be the body that monitors EVA calculations and not the Local Government Commission.

F4.7

The number of days taken to complete New Zealand's export and import requirements compares well with other countries, but is behind international best practice.

If New Zealand is behind international best practice, then more can and needs to be done with an emphasis on document preparation – New Zealand 5 days vs Singapore at 1 day (both imports and exports) per Table 4.7.

In our view this reinforces the point made in our earlier submission that the Trade Single Window (TSW) project needs to be expedited. Improved efficiency should embrace all sectors, including all government agencies (Customs and MAF in this instance).

The TSW project in prospect will allow New Zealand to match the record of Singapore in respect of document preparation. It would be helpful if the final report could clarify what approach Singapore uses and why it is considerably better than New Zealand.

F4.8

While New Zealand is performing reasonably well in areas such as customs procedures and documentation requirements, there may still be scope for improvement in these areas. In addition, continuing to work with trading partners to improve trade facilitation could reduce transit times.

Same comments as in F4.7; all industry sectors – including Government agencies – need to work to an improvement agenda.

We contend that there is scope for improvement in respect of Customs procedures and documentation requirements.

The Port of Napier also believes the Commission should recommend that funding for the next developmental stage of the TSW/JBMS be locked in place by the Government.

5.1 Competition and operational efficiency

Sea Freight – Stevedoring and Marshalling

Napier sits outside the norm as described; the Port owns the container terminal, operates all landside equipment but subcontracts shipside stevedoring per customer preference. Two stevedores operate within the container terminal.

In respect of non-containerised operations we are a landlord operator with practically no involvement in cargo operations; these are handled by four competing stevedores/marshallers.

There are no impediments to stevedores or marshallers accessing facilities. It is worth noting that freedom to operate and compete can compromise efficiency of port land use and as a consequence limit port throughput. This is due to the duplication of facilities and space for each stevedore to operate safely.

Road Freight

HPMV vehicles – the first in New Zealand at this time, already operate within the Port of Napier on key regional routes. The port and regional stakeholders are at the forefront of the change in New Zealand to embrace heavier loads/fewer vehicles.

5.2 Coordination and operational efficiency

A significant inefficiency for many New Zealand ports is the inability of the majority of New Zealand container shippers, importers and exporters to operate much more than standard Monday-Friday business hours.

Ports in contrast operate 24/7, at least for working of vessels and have much greater capacity to receive exports and deliver imports than is currently the case. A 7 day a week receival and delivery gate operation is not viable in most New Zealand ports for the lack of demand, especially on Saturday (afternoon) and Sunday.

One consequence of the mismatch in demand and supply is terminal operators having to invest in plant and equipment at a higher level to serve a 5-6 day gate operation; if the demand was more evenly spread over 7 days a lower level of plant and labour would be needed.

These comments also cover the availability of border agency staff to provide a level of service that keeps the flow of (import) containers moving smoothly. A limit on border agencies staff numbers and hours of work does lead to inefficiencies.

F6.1

The demand for port services is highly variable, driven by the 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.

Please refer to comments regarding Section 5.2 re optimising investment

In so far a managing access to labour, container terminals are comparatively easier to co-ordinate because most of the 5 key container ports (Auckland, Tauranga, Napier, Lyttelton and Port Chalmers) have sufficient fixed weekly berth windows and volume of containers exchanged to generate permanent employment.

There is however a level of ‘wastage’; that is vessels finishing part way through a shift without another vessel available to start work, especially in the period between midnight and 0700.

In respect of break bulk cargo, the ad hoc nature of vessels and cargo exchanges makes it very difficult to generate permanent employment and as such it is not so surprising that ‘casuals’ comprise a significant portion of the required labour. Availability of casual labour or the lack of complicates planning and may raise questions over safety given the degree of labour churn.

Q6.1

To what extent are the work practices identified during consultation restrictive in nature and not in the long-term interest of the efficiency of the international freight transport services system? What evidence is there that these practices are, or are not, necessary to ensure desired outcomes, such as with respect to worker safety?

Section 6.4 outlines a number of work practices which may be restrictive across New Zealand.

In Napier, only some elements apply rather than all the issues that are noted. The key points are:

- Barriers to access to jobs, especially the requirement to progress in a ‘customary’ fashion rather than on a skills assessment. This tends to reward length of service and de-emphasises a high performance culture.
- Pressure is placed on new employees to join a Union and to ‘tow the line’.

Limiting work hours and shift length can result in more expensive labour costs. It is difficult to entertain discussion of more cost efficient coverage options. Coverage per se is a barrier to change with little recognition that market circumstances and shipper requirements are dynamic. Port employers in most situations are labour service brokers yet Unions seem unprepared to recognise or accept market realities. Union customary coverage is really only a means of limiting labour competition. This approach aids and abets traditional demarcation. The net effect is that most ports operate with very traditional and comparatively out-dated labour arrangements where the mere thought of a more efficient alternative can promote disruptive approaches by Union hierarchy.

The current Auckland dispute is a clear example of why there is management reluctance to push for less restrictive work practices. While the outcome of the Auckland dispute is unclear at time of writing, the direct costs, loss of business and significant long term reputational damage are an extremely high price to pay for Port management to legally exercise its right of prerogative as an employer.

Q6.2

To what extent do the factors identified by the Commission in the course of its investigations explain the continuation of restrictive work practices? To what degree are the factors identified valid and complete?

Unless ports cannot reasonably and effectively counter restrictive work practices without fear of disruption, then it must be accepted that ports will be largely incapable of contributing any significant productivity improvement for the foreseeable future.

F6.2

By and large, collective agreements and individual employment agreements do not codify restrictive work practices. There are several possible reasons as to why restrictive practices may remain, including weak governance arrangements for ports and unions; entrenched cultures; and significant negotiation leverage of organised labour arising from a number of factors, including common law support for 'customary arrangements' that makes changing work practices more difficult.

We support the contention that employment agreements do not codify restrictive work practices. We however cannot concur with the Finding that weak governance arrangements for ports and unions is a key issue. The Port believes entrenched cultures in both the unions and in management and the negotiating leverage in an industry critical to the New Zealand supply chain are the main reasons.

Ports in the main wish for change to restrictive work practices and unions wish to maintain their power base within the port nationally and internationally the rights and privileges of members. Ideology conflicts with business interests.

F6.3

There is evidence to suggest that unions have used their influence to limit competition among port service providers.

Agree. Ultimately this limits flexibility and possibly competition in the long run.

F6.4

Impediments to competition in the provision of port services can reduce the efficiency and long-term viability of New Zealand ports and undermine broader competition policies and legislation.

Agree.

R6.1

The Government should review whether existing legislation is sufficient to effectively regulate barriers to competition that arise as a result of union activity.

Agree with Recommendation.

F6.5

While subject to further work and discussion with interested parties, there may be scope to remove impediments to improved workplace relationships through improving the governance frameworks applying to ports and unions.

While in principal supporting the Finding, improved governance etc. must be matched by enlightened leadership and participation by both ports and union.

R7.1

Border agencies should continue to enhance their performance measures and performance review procedures in order to improve the transparency of agencies' performance and increase management accountability.

Enhancement of border agency performance is admirable. A risk-based approach in combination with reduced financial and frontline human resources by way of reduced MAF and Customs budgets is a rising concern and questions the extent to which performance can be enhanced when resources are being substantially reduced (notwithstanding there may be opportunities for smarter resource deployment).

F7.4

While the second phase of the Joint Border Management System project will largely address coordination issues between the Ministry of Agriculture and Forestry and the New Zealand Customs Service, the introduction of this system is several years away.

Questions must be raised as to the current JBMS project timeline; if system efficiency is pivotal then Government should play its role by adequately resourcing the project and locking in the funding to ensure its introduction as soon as possible but sooner than “several years away”.

R7.3

The Customs and Excise Act 1996 should be reviewed to assess whether it is fit for purpose in light of changes to border management practices and developments in technology since 1996.

We support the Recommendation.

F7.7

Fees and charges imposed on New Zealand importers generally compare favourably with those imposed by Australian border agencies.

JBMS is ultimately being developed to increase the system efficiency with prime beneficiaries being importers and exporters. While there may well be an increase in direct export and import costs related to JBMS/TSW, it is highly probable that future benefits will considerably outweigh current system costs. A single and seamless online electronic entry process will replace less than optimal procedures – many of which are still manual and duplicated.

The greatest benefit will be time gained and in this respect we believe that JBMS must at minimal match the turnaround achievements of Singapore’s system.

JBMS is a unique once in a generation opportunity; we stress the need for all border agency requirements – particularly for exports – to be fully completed prior to delivery of cargo to port. A minimum 12 business hour delivery cut off prior to loading for export should be mandatory.

The current approach without mandated requirements is in urgent need of improvement. By way of example, Customs Export Delivery Orders (CEDO’s) need to be completed before loading to vessel and in the case of exports to the US, at least 24 hours prior to loading. When this regime was introduced in the period after 2001, Customs from recall were not prepared to insist on a lodgement time other than before loading despite many ports including Napier, requiring 12 business hours as a minimum. The need for a mandated cut-off is now very important in order to improve planning/loading efficiency.

The lack of current compulsion causes delays to every vessel handled. Ship Planners have to chase shipping lines for cargo booked to load but which have not yet lodged a CEDO. As most shippers do not work outside normal business hours, a vessel loading of an evening or during weekends can be impacted on. System efficiency is being compromised on an on-going basis as delivered cargo without CEDO’s (due to shipper inadequacy) has to be withdrawn from the load plan and reshuffled within the container terminal – with consequential “wastage” due to double handling. This approach causes containers to move through terminals slower than desirable as they have to await the following as opposed to the first booked vessel.

Such an approach is inefficient, time-consuming and wasteful of port resources. Planning of vessels also becomes rushed due to the number of last-minute CEDO-related load list withdrawals.

The only and proper approach for exports is to legislatively mandate for all border processes to be fully satisfied prior to delivery to port and at least 12 business hours prior to loading.

For imports the reverse needs to be followed; all border processes need to be fully completed at least 12 business hours prior to discharge.

The emphasis on business hours is purposeful to ensure any required remedial issues can be immediately resolved. A flow on effect is that any MAF bio-security concerns surrounding imports can be communicated to the appropriate port in advance of unloading of imports.

Any cargo that needs to be inspected can be isolated at time of unloading instead of becoming buried within the general import discharge.

This proposed approach is sound for both bio-security risk mitigation and far more efficient a risk cargo can be more efficiently dealt with, avoiding waste of port and border agency resources.

Improved JBMS processes have the potential to considerably improve total system efficiency; this is a point the draft report seems to undervalue by some margin.

F8.1

New Zealand businesses have little influence over the level of investment and innovation by the international shipping lines visiting New Zealand, but New Zealand ports may have a role in enabling more efficient ships to service New Zealand.

We agree with the Finding.

F8.2

Except in specialised bulk shipping, coastal shipping struggles to earn returns on investment. This is partly a consequence of government subsidies to rail.

Coastal shipping potentially has a more certain place in New Zealand's future and rail subsidies may well be a contributing factor to coastal shipping's vulnerability.

We contend however that the greatest impact is a lack of contracted throughput rather than rail subsidies per se.

Coastal shipping's prime competitor is international shipping, less so rail or road due to distance/price costs and limits on available capacity, especially for rail.

The Port of Napier has been encouraging of coastal shipping over the last 4-5 years but to date our efforts to foster this transport option have not met with sustained success (nor for the operators involved).

In our view the underlying issue is a lack of long term, all year business in which to make investment and service decisions.

While there is a purely domestic component able to contribute to coastal shipping throughput, the greater proportion is international trade, particularly in containers.

Coastal shipping tends to operate one might say at the convenience of international shipping lines; coastal provides an accepted and distinct need yet few international shipping lines seem prepared to make long term business commitments to coastal use. Until this approach changes coastal shipping will remain vulnerable.

F8.3

The Commission's EVA analysis poses questions about how well ports use capital resources. The potential impediments to efficient investment and innovation at these ports discussed in this report are ownership and governance arrangements for ports, investment planning processes, and the effects of the Resource Management Act.

The Commission may be surprised that there is far more innovation occurring than is reported particularly with its focus on Auckland and Tauranga.

The ability to invest in technology and innovation is only but one element in use of capital resources.

As is accepted, ‘lumpiness’ characterises port investments and an asset with a +50 year life e.g. berths become decidedly fixed once built.

The international freight transport system has become considerably more dynamic in New Zealand over the past decade. As a country, industry sector and individual port, we are directly connected to international trade whereby an overseas event can directly impact into collective or individual ports within a short space of time.

Such direct connectivity is a critical influence on capital investment. It is now difficult to sustain highly specialist facilities without very long term user commitment.

At the same time port users and shipping lines have become far less inclined to make long term commitments in the name of either competition or colloquially wishing to keep “one’s powder dry”.

The net need therefore is to try and ensure port capital investment is properly future proofed – new tugs for instance should be capable of servicing ever larger vessels over the next 30 years – or facilities designed for multipurpose use.

The above requirements need to be matched by port management which is highly responsive to changes in throughput. As international trade is typically cyclical, ebbs and flows in throughput must rapidly translate into a flexible use of all port resources, capital, labour and other.

We believe this combination of investment and management approach is one reason that Napier is the sole New Zealand port to report a positive EVA result in all the last 4 years and through the midst of the GFC. Critically, the Port still made major capital investments in this time in excess of \$60m.

F8.4

Contestability of stevedoring and marshalling is only occurring at some ports. Provided there is sufficient scale, greater contestability at other ports would improve incentives for innovation in stevedoring and marshalling at these ports.

The degree of contestability is more of an issue for container stevedoring. Land constraints tend to limit the practicality of implement contestability for marshalling operators.

While in Napier there are 4 stevedores contesting a rising base of 2.5m tonnes of general cargo per annum, only 2 stevedores operate within our container terminal (throughput circa 200,000 TEUs p.a.).

As is identified, scale and the physical size of the terminal are the prime drivers of increased contestability. We would suggest that throughput needs to be significantly higher than at present as well as considerably larger in physical dimensions before a sustainable throughput level supports permanent employment of competing stevedores. Until this point is reached, there is greater reliance on casual labour arrangements.

This permanent/casual distinction is important for stevedore skill retention and ultimately creating an environment of higher performance.

It would however be somewhat wrong to ignore that scale also applies to capital. A significantly higher level of container terminal throughput is possibly needed before different capital options can be realistically realised.

No New Zealand container terminal is likely to be in a position in the next 5-10 years to invest in full automation; this remains the domain of very large hub ports, none of which exist in Australasia.

There is however one important aspect worthy of mention. Tauranga in particular has a very significant breakbulk business – larger than all other New Zealand ports by far. This scale of breakbulk business allows it many advantages such as a level of throughput to fund say its container terminal or an assured level of breakbulk throughput that enables stevedores to employ more fulltime staff. In turn this assists the contestability of container stevedoring.

F8.5

Other than the possible effect of heavy vehicle regulations on the uptake of higher productivity vehicles (discussed in Chapter 13), there do not appear to be any impediments to investment and innovation in road freight.

The Port of Napier, working with other regional stakeholders, have been very active in embracing the opportunities presented by HPMV's. New vehicles designed to carry 62 tonnes already operate in the Port and region; by 30 June new HPMV's will be capable of running to/from Taupo to Hawke's Bay.

We believe there are however impediments to investment by virtue of the challenges to fund mainly bridge upgrades on major freight routes. This impacts on both NZTA and TLA's as owners of local roads.

F8.8

There appears to be ambiguity around the interpretation of the purpose of the RMA and the extent to which the Act allows the balancing of socio-economic aspirations with environmental outcomes.

We agree with the Finding.

R8.1

Section 5 of the Resource Management Act 1991 should be reviewed to clarify (and elevate) the consideration of net social benefits and costs (including those accruing at a national level).

Should the Government decide not to review s.5, s.6 of the Resource Management Act 1991 should be amended to include specific reference to the development and operation of regionally and nationally significant infrastructure.

We fully endorse the Recommendation re amending S5 & 6 of the RMA.

Independent economic analysis commissioned by the Port of Napier has established that this port's contribution to GDP is "nationally significant". This is also borne out by the Table 3.1 of the draft report (P27-28) which states that Napier handles more than 8% of New Zealand's exports (by value and weight).

In view of national significance and increasing reverse sensitivity issues for ports on long established sites (120 years in Napier's case), we believe adopting the list of network utility operators within the RMA to include seaports would be a positive step in recognising ports' national significance and of transport infrastructure in general.

F8.9

Central government plays an important role in providing direction on issues that involve balancing local values with regional or national benefits. Without clear signals from central government, national benefits and costs may be assigned a lower priority during the planning and consent process – resulting in the potential reduction of economic, social or cultural wellbeing.

We also concur with this Finding. While we have experienced an improved understanding in recent years of key regional and national issues by some central government agencies and ministries, it is far from a coherent and consistent whole of government approach in respect of transport infrastructure across its full spectrum.

R8.2

The Minister for the Environment should commence development of a National Policy Statement for transport infrastructure, which would provide central government recognition of the importance of New Zealand's transport infrastructure.

This recommendation will provide more weight so long as it is considered or enacted as part of a consolidated package of central government changes (and certainly not in isolation). By way of example, R8.1 should be implemented alongside R8.2 amongst other initiatives.

We do however point out the requirement for R8.2 to sit constructively with the existing GPS process for Land Transport Funding.

R8.3

Section 166 of the Resource Management Act 1991 should be modified to including port companies as network utility operators.

Consistent with comments elsewhere in Section 8 (Findings & Recommendations), we fully support the inclusion of seaports as network utility operators within S166 of the RMA.

F8.10

Recent reforms to the RMA have led to improvements in the timeliness and cost of the consent process. The full benefits of these reforms are likely to take time to filter through into council plans, and into the perceptions of those whose opinions may have been shaped by previous experiences.

We encourage the early adoption by Government of R8.1, R8.2, R8.3 to further improve the cost and timeliness of the RMA consents process.

F9.1

Coordination failures may be exacerbated by the multiple objectives associated with public ownership. Such failures may be better addressed through governance and ownership changes rather than centralised strategic planning.

We are in agreement with the general proposition that multiple objectives associated with public ownership may exacerbate co-ordination failures. We contend that public ownership per se need not be saddled with multiple objectives.

We also earlier contended that the Port of Napier was a good example of a successful commercially focussed port; this has been borne out by Napier's results in the EVA analysis noted in Table 3.10 (P43) of this draft report.

F9.2

Government service providers, particularly those receiving poor price signals, face a difficult problem in collecting reliable market research on which to base their investment decisions. ‘Facilitated discussions’ can assist with this important task, and also promote relationship building and information sharing, leading to improved coordination.

We note the Finding and the point about “facilitated discussions”. If the outcome is more informed debate then this should be encouraged.

Experience to date suggests that current understanding of the myriad and complexity of issues regarding ports, shipping and transport in general as being very poor.

We note however that this draft report makes a good fist of dissecting many of the critical industry issues including big ships and we suggest that the information – updated over time – becomes the focal point for future debate. Central government should also be encouraged to point towards this information as it develops policy etc. into the future.

F9.3

Leadership models for infrastructure planning need to be based on high-quality information. Leadership in an uncertain environment creates high risks for the leader. Governments should be wary of calls for it to assume the normal commercial risk of other parties.

We suggest that government’s key role is to enable informed information and debate and fully concur re the thoughts re assumption of commercial risks of other parties.

Informed debate/information should be built on the base information and understanding gathered in this draft report. This broadly covers Sections 1, 2, 3 and 9.

F9.4

The designation of transport corridors can create valuable outcomes at a relatively low cost. Corridor designation is a worthwhile activity for central and local government.

Agree with the Finding re transport corridors. We trust that this implies a transparency over the measures which underpin corridor designation and that they in future are untainted by subjective judgement or political influence.

Clearly there needs to be demonstrated links to for instance the GPS on Land Transport Funding.

Q9.1

Are there any specific examples of impediments to the optimal coordination of freight infrastructure planning between central and local governments, or between adjacent local governments?

We believe a notable impediment to optimal co-ordination is the quality of data that underpin measures, understanding and some decisions in respect of transport infrastructure (funding).

We reiterate the view contained in our initial submission (sub 010, Q3, P3).

R9.1

A full cost benefit analysis (ie, including all externalities) should be published for government investments in rail infrastructure, including further investment in the KiwiRail Turnaround Plan. These analyses should be directly comparable to those produced for major road projects.

Proposals for investment in road and rail should be subject to rigorous investment screening in a coordinated way, which enables the best projects to be selected – be they road, rail, or a combination of the two. Without this level of transparency, the public cannot be confident that scarce resources are being allocated to the most beneficial projects.

We fully support the Recommendation.

Our comments elsewhere (F9.4 & Q9.1) support the need for R9.1.

F9.6

'Facilitated discussion' models of cooperation based on information sharing, robust discussion and relationship-building – but with no ability to bind the participants to particular outcomes – do not create strong incentives for the costly behaviours that undermine directive planning models (ie, tactical misinformation, rent-seeking and strategic hold up). There is scope for their increased use by government in coordinating investment planning.

We support the Finding and suggest it results in a recommendation in the final report as to the method by which facilitated discussion may be achieved and how critical sector information may be kept current. We believe there is an on-going role for the MOT in respect of maintaining information contained in this draft report as well as upon understanding more critical sector issues and influences.

F9.7

Caution needs to be exercised when using publicly available cost figures to reach conclusions on the magnitude of investment needed to support bigger ships.

We support the finding.

The Port of Napier already handles the largest (container) vessels in New Zealand and expect this to continue with a likely cap at about 6250-6500 TEU capacity.

Capital needed to accommodate a big ship is however more than able to handle other bigger ships, certainly those above 4500 TEU capacity as well as larger bulk vessels. Improving productivity in a general sense often requires increased capital investment and improved processes but need not be solely tied to bigger container ships as per our comments in F4.3.

As New Zealand's net (export) freight task grows it will require far larger container and bulk vessels than at present. For example 4000-4500 TEU vessel already in service in New Zealand ports (including Napier) will become more prevalent over time. Catering for a larger class of vessel need not necessarily require quantum investment if it is staged and realistic.

Draft is perhaps the most vessel dependent port investment. Draft requirement for larger vessels is not universal across New Zealand. First and last load ports require (near) maximum draft but mid ports such as Napier require far less draft as a consequence.

While it may be very desirable for bigger ships to arrive and depart at any time – no dependency on tidal height/draft – we need to be realistic; some major hub ports e.g.

Hamburg are tidal by virtue of their river location. As a consequence many big ships (>7000TEUs) are still dependent on draft.

F9.8

An immediate move to supporting bigger container ships would appear to have high risks and uncertain benefits for New Zealand. These conditions favour an incremental approach in which ports make investments in small stages in response to evolving freight demand and changes in container ship deployment. As well as reducing risk, staged investment reduces the need for explicit centralised strategic planning.

Following on F9.7 comments and relating to those made by us in respect of F4.3, there is no need to bet the farm. The shipping industry is highly volatile and there are limited global examples of lines making long term commitments to ports or terminals. The exception is where lines have a financial interest in a terminal or a concession of the same. These scenarios do not exist in Australasia heightening the risk profile.

A staged investment approach in response to increased business or in pursuit of efficiency is an alternative pathway.

F9.9

While larger container ships servicing one or more New Zealand hub ports would lower voyage operating costs, it is unclear whether these cost savings will be transferred to shippers, or whether the reduced competition between ports (and shipping lines) would result in higher port charges and shipping fees.

We agree with the Finding.

This finding underlines the need for ports to be able to handle a range of shipping services from a combination of coastal shipping, continuing direct calls by international lines, with or without transhipment activity, larger ships and/or coastal feeders to one or two New Zealand hub ports.

It should be obvious that the above options refer only to container shipping (less than 40% of New Zealand's total freight task). Break bulk cargo in the main will continue to be dominated by direct port calls i.e. the acceptance point for cargo is the direct port of load (or the reverse for bulk imported cargo).

F9.10

likely lead to reduced freight costs for some shippers and cost increases for others. These uneven effects make it difficult to determine whether shippers, as a whole, will be better or worse off in a bigger ship scenario.

An allied issue for a hub and spoke model is that of road and rail capacity. New Zealand's geography in a future economy that is fiscally constrained is unlikely to reach a standard of infrastructure (as seen in Europe or China) which promotes long distance road or rail carriage to a hub.

If so it suggests that direct port calls at key ports outside of the hub will continue due to this scenario being more cost efficient than a sole hub model.

Shipping line competition will likely ensure direct port call options will be maintained for up to 5 key container ports (Auckland, Tauranga, Napier, Lyttelton, Port Chalmers).

Some regional ports (Nelson; Wellington etc.) could well continue to handle smaller container vessels without great fear of change.

F9.11

The scenario in which a lack of container ports in New Zealand capable of handling 'bigger ships' forces hubbing through Australia with both higher costs and transit times appears unlikely. The commercial viability of this scenario would be undermined by direct services with smaller, albeit less fuel-efficient, container ships.

It would be unwise to write off Australia as an important network component for some shipping lines, including those who have a desire to hub New Zealand products to Melbourne as the most likely port in this scenario although Brisbane may suit some lines better if the ultimate destination is North Asia.

Container services which currently call both Australia and New Zealand are unlikely to stop doing so for it suits some lines especially southbound to Australia from Asia then to New Zealand and northbound to Asia again. This combination provides the likelihood for full loadings in both south and northbound legs.

Ironically this could feed Australian cargo for transhipment at a New Zealand port.

In essence care needs to be taken that a one size fits all situation, whether in combination with bigger ships or not, is used as the only model for New Zealand hubbing.

Lines are not homogenous; many unique operating preferences have individually proven successful over time.

While the next few years will prove very challenging for lines – and some may well have to alter their current operating strategy – most will not want to be shoe-horned into sharing big ships with their competitors as the only means of servicing New Zealand.

F10.1

Effective governance is ensuring that the organisation makes value-maximising decisions across all of its functions and activities. The governance arrangements for publicly-owned enterprises need to be of high quality because publicly-owned enterprises face less discipline from other sources than comparable privately-owned enterprises.

In a general sense the finding may be broadly correct. We contend however that there are examples which run counter to this specific finding, one of which is the Port of Napier.

While it is difficult to practically test Napier's governance (as we are clearly not a private enterprise) the better test is when compared to publicly listed (port) companies.

If a positive, sustained EVA is one potential litmus test of effective governance, then Table 3.10 (Page 43) is proof that Napier has effective governance despite its public ownership. The key difference is that we are governed and managed as if we are privately owned.

R10.3

In the interests of improved reporting and transparency, and the efficient use of capital in the freight transport system, EVA figures for port companies should be regularly published and reviewed, including disaggregated data for significant business segments.

The Port of Napier supports the reporting of port wide EVA on an agreed and standardised basis. The Port of Napier does not support this for business segments as in some areas the information is commercially sensitive. We also note the tax

treatment of certain New Zealand port capital investments do not allow accurate comparisons with overseas owned and operated ports.

R10.4

A collective monitoring function should be established for port companies, to create independent information on comparative performance of ports for owners to consider – further strengthening ownership disciplines and optimal port performance.

The Port of Napier is an active long term participant in forums which contribute to comparative performance of ports. Two current forums we contribute to are MOTs FIG's project and MOT's port productivity study.

The Recommendation therefore reflects current Port of Napier practice.

R10.1

The objectives of council-owned port and airport companies should be brought into line with the objectives for state-owned enterprises; ie, to be as profitable and efficient as comparable businesses that are privately owned.

Port of Napier has no objection to this Recommendation.

R10.2

To maintain the separation between wider council objectives and the commercial objectives of port and airport companies, elected representatives and council staff should be precluded from being a director of council-owned port and airport companies. All relevant legislation should embody this provision.

The Recommendation reflects the Port of Napier position. A fully commercial focus – without elected representatives or council staff – has characterised the Port of Napier Ltd since its inception.

Q10.1

What agency would be best able to host the collective monitoring function for port companies?

If COMU is regarded as a successful model then a similar type unit within the MOT would be the most appropriate vehicle. As the ports have their own legislative framework and report to the Minister of Transport, it would make sense from a policy and monitoring perspective to be under the MOT.

If adapting a private enterprise model is seen as aspirational for port companies (F10.1), then the suggestion of having the Local Government Commission as the host for collective monitoring is somewhat out of step with a private enterprise stance.

R10.5

Government should use the s.7 provisions in the State-Owned Enterprises Act (providing for SOEs to receive direct payments for non-commercial activities) with KiwiRail to transparently identify expectations around public-good delivery and the costs incurred in their provision.

For consistency purposes across all sectors, this recommendation is supported.

F10.5

One option for public owners seeking to improve governance is to opt out of the relevant public-sector governance regime and into the stock-exchange regime. A stock market listing offers significant potential governance improvements for larger companies with partial council ownership. These benefits arise from an observable share price, reporting and continuous disclosure rules, and external analysis of management decisions.

We regard this as a shareholder issue.

R10.7

Councils – in particular those with interests in ports occupying large blocks of central city waterfront land – should consider landlord port models in which land ownership is separated from port operations. This may be an efficient mechanism for maintaining control over port land use while benefiting from the efficiency improvements resulting from increased private involvement in port operations.

The Recommendation seems to pre-suppose that those ports with central city waterfront land are currently inefficient. The greater concern about the proposed land separation could be the enhanced risk that port operations fall foul of citizens and are gradually shut down.

The additional risk of R10.7 is that it may undermine R8.1 and R8.3 for instance which seek to clarify what is regionally and nationally significant infrastructure.

F10.6

While central government ownership of rail has relatively poor incentives for improved efficiency, history suggests that rail (at least at the current network extent) is unlikely to pay its way under any ownership arrangements.

While the Finding may be correct it needs to be read in conjunction with R9.1 and R10.5.

After full disclosure as per R9.1, it may well highlight why some public good aspects of rail are in balance and better outcomes when transparently compared to road transport options.

F11.1

Cooperation agreements between international liner shipping carriers have historically been exempt from the full application of domestic competition laws. The policy rationale for these exemptions was that price/capacity fixing and revenue pooling etc. were needed to ensure reliable liner shipping operations. As such, the public benefits of the agreements were taken as so likely to outweigh any anti-competitive detriments that there should be no onus on carriers to prove that they do so.

It may be helpful for the Commission to try and verify whether the historical exemptions continue to outweigh any anti-competitive detriments in a contemporary setting.

Q11.1

What means have carriers used to respond to the excess supply of shipping capacity created by the prolonged downturn following the global financial crisis?

Laying up of excess vessels and slow steaming are the prime tools of managing down excess ship capacity. While it may be worth debating why vessel supply so readily exceeds cargo demand, the prime tools are concerns if their impact was to harm overall freight system efficiency and the interests of other parties.

The recent round of shipping lines re-grouping into greater levels of vessel sharing has yet to impact in New Zealand although capacity over-supply is greatest in trade lanes running between the Far East and Europe or the US (and not New Zealand).

R11.1

Exemptions for the types of agreement with the higher risk of anti-competitive detriment – ratemaking and capacity-limiting agreements – should be removed. These arrangements should have access to the authorisation and clearance mechanisms in the Commerce Act.

There should be a transitional period to allow the agreements in place at the time the exemption is repealed to continue until their compliance with the Commerce Act has been tested.

The Port of Napier again cautions the Commission from recommending the removal of the exemptions as the New Zealand trade is quite different from those generally used in the commentary to support withdrawal. The nature of the New Zealand trade lane is unique and these factors need to be carefully assessed i.e. distance from market, imbalance of import/export trade flows, the high reefer component of the trade, as well as the unusually high seasonal peaks. The Port supports further detailed analysis of the likely impacts before a final recommendation should be made.

R13.1

In the interests of their own productive efficiency and service to customers, port and airport companies should periodically review the extent they unbundle activities within their domains and allow access for competing firms to supply them.

In terms of this Recommendation, the Port of Napier supports this, as it reflects current practice in any event. In two unrelated instances in the last 12 months, the Port of Napier has effectively relinquished services to customers due to those services no longer being able to be efficiently supplied.

R13.2

The Government should develop a proposal to extend the Freight Information Gathering System and subject the proposal to a regulatory impact analysis 'efficiency test' to determine whether it would deliver net benefits beyond existing information collection and dissemination.

The Port is concerned as to the extent of any extension to the Freight Information Gathering System without the detail of what is required. Likewise the 'efficiency test' would need to be independent and not increase compliance costs on ports.