



# PORTS OF AUCKLAND

## Submission on International Freight Services

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## Introduction

1. Ports of Auckland (POAL) is pleased to have the opportunity to provide a submission to the New Zealand Productivity Commission's inquiry into international freight transport services.
2. This submission complements, and provides additional information to, views presented in a separate submission prepared on behalf of all New Zealand port companies.
3. New Zealand is a unique economy, geographically distant from world markets. We are one of the world's most active trading nations with import-export trade representing around 70% of GDP. Our primary production sector, for example, which is highly reliant on an efficient and cost effective supply chain, contributes around 65% of New Zealand's total exports.
4. New Zealand is also a small player in global trade terms, representing 0.39% of world container port traffic.
5. A coordinated, end-to-end approach to understanding supply chain logistics and productivity, with increased alignment and co-operation between all phases/links in the chain, has the potential to improve New Zealand's economic performance.
6. This is easier said than done. New Zealand suffers from an 'information deficit' about its supply chain operations (to give just one example, little is known about who in the supply chain is making decisions about which port is used and what mode of overland transport is deployed). While importers and exporters, transport operators and ports each have their own insights, there is an opportunity to assemble and review the various sources of information to inform a strategic long-term approach to improving productivity.
7. POAL has some concerns about the narrow framework of the Productivity Commission's current review, especially its exclusion of road, rail and coastal shipping. The Commission's report notes that (Pg 24) ports charges represent only **6.3%** of total logistics costs for New Zealand businesses. However, all steps within the supply chain need to be considered to get a true understanding of supply chain efficiencies and costs, to support better economic outcomes.
8. Notwithstanding this reservation, we are pleased to support the inquiry process, and also welcome the forthcoming release of the Ministry of Transport (MOT) Ports Productivity Benchmarking programme. These are important steps forward.

## About POAL

9. As New Zealand's most significant port, Ports of Auckland's performance underpins Auckland's and New Zealand's economic growth.
10. By value, POAL handles 40% of New Zealand's total imports and 21% of New Zealand's total exports, representing approximately \$26.4 billion of trade – 37% of the country's total seaport trade and 31% of all trade (Stats NZ, 2010 calendar year).
11. The country's next two largest freight ports, Auckland International Airport (AIAL) and Port of Tauranga (POT), each handle about 15% of New Zealand's total trade by value annually.
12. POAL is New Zealand's largest container port by volume, handling around 895,000 TEU (20-ft equivalent units) in 2010/11 – 36% of the country's total container trade. The next largest volumes handled were by POT (590,500 TEU) and Lyttelton (290,800 TEU). POAL is the only New Zealand port company ranked among the world's top 120 container ports.
13. During 2010/11 POAL also handled more than 1,600 ship calls and 3.5 million tonnes of break-bulk (non-containerised) cargo. As well as being New Zealand's main vehicle trans-shipment hub, with 67% of the imported vehicle market, POAL is also New Zealand's premiere exchange port for passenger cruise ships, currently hosting around 100 calls per annum.
14. POAL employs around 650 staff at the Auckland and Onehunga seaports, and operates an inland freight hub at Wiri, South Auckland, through a joint venture company CONLINXX.
15. POAL will release an updated economic impact report for the 2010 calendar year later this year. This report will be made available to the Commission when finalised.

## Commission Questions

Q1

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

16. POAL supports the Commission's economic efficiency focus, but it is efficiency over the overall supply chain system that matters.
17. Having each component of the supply chain and each interface individually efficient would support marginal productivity and efficiency improvements, but is not a guarantee of optimal efficiency at a system level. For example, POAL's vehicle booking system enhances on-port efficiency, but its impact on the overall supply chain has not been established.
18. We also note that it's important to take a long-term, forward-looking view of efficiency which will support investment decisions so that POAL is able to increase its capacity and productivity in order to meet future trade demands. POAL is anticipating average year-on-year container volume growth of 5%. At this rate, by 2040, POAL will be handling quadruple the volume of containers it is currently.
19. By comparison with other NZ ports, POAL is in a relatively unique location situated in the heart of the Auckland CBD. Having a major deepwater port in New Zealand's largest city is of immense strategic importance for New Zealand's economic competitiveness. The new Auckland Council has a particular focus on effectively integrating the waterfront and port with the central business district.<sup>1</sup>
20. It will be important to ensure the Commission takes into account relative externalities (access, agglomeration, and social wellbeing factors) of importance to Auckland's future economic growth and planning. *[POAL refers the Productivity Commission to Auckland Council's submission on this point.]*
21. In understanding the overall economic context, the Commission should also note the findings of a recent (May 2011) Ministry of Economic Development report "Economic Linkages between New Zealand Cities", in particular sections 1.3.2 – 1.3.4. These are excerpted at Appendix I of this submission, page 25.

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<sup>1</sup> Review of Governance Models for Waterfront Development and the Relationship with Port Precincts and CBDs, ARH, 20 March 2009

Q2

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

22. As previously noted, POAL has concerns about the narrow framework of the Productivity Commission's review, especially its exclusion of road, rail and coastal shipping.
23. We believe all costs within the supply chain need to be considered to achieve appropriate visibility of inputs and outputs across the supply chain, with a view to achieving productivity and efficiency improvements which will support economic growth for New Zealand.
24. POAL is committed to providing relevant data to both the Productivity Commission, and the MoT's Benchmarking programme.

Q3

**Which components and component interfaces warrant greater attention? What is the evidence that they are inefficient? What contribution could changes make to an improvement in the overall efficiency of the freight system?**

25. Consistent with earlier concerns about the narrow scope of this review, POAL believes attention should be given to relative costs and efficiencies of government agencies (MAF, Customs, NZ Transport Agency) working on port and their impact on the supply chain.
26. Our greatest concern is in relation to the statutory treatment of lines in respect to contracts with shippers. The default position should be that the Commerce Act applies to all. We don't see a compelling argument for the lines to be treated differently to other parties in the supply chain.
27. We recognise that regulating trade from one end of the supply chain has limitations, with different regulations being exploited in different jurisdictions.

Q4

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

28. Environmental factors have a significant inhibitive effect on port development. We note Appendix 2 of the Issues paper (Relevant Legislation) has no reference to the *Resource Management Act* and the review currently underway.
29. The Terms of Reference state that particular attention should be given to the effectiveness of the current regulatory regimes affecting international freight transport services in promoting accessibility and competition.
30. The provisions of Part 2 of the RMA provide very limited recognition of the essential role infrastructure and industry plays in providing social, economic

and cultural wellbeing. The RMA is not a "no environmental effects" statute. Social, economic and cultural wellbeing cannot be achieved without providing essential infrastructure and enabling development that provides employment opportunities.

31. POAL considers that balance is required to address the importance of essential infrastructure and industrial development to achieve sustainable management as defined in s5. This would help address frustrating elements of the current consenting regime where council officers often approach consenting as an obstacle for an applicant to overcome, rather than working with an applicant to enable or facilitate appropriate investment and development. Changing this mindset is important to ensure the RMA is truly streamlined and simplified, with the current layer of unnecessary bureaucracy removed.
32. Amendments should be made to s6 of Part 2 to provide for nationally significant infrastructure and industry as a matter of national importance. Part 2 should not be left silent on this point and an amendment should be made to section s6 rather than s7, where it would have less weight.
33. The current maximum duration of coastal permits (35 years) is a significant deterrent to investment by port companies. POAL is looking to extend the term of these permits to 100 years with a perpetual right of renewal. This regime would make them more akin to land use consents which have an unlimited duration and which potentially apply to the balance of port companies' operations.
34. Under the current RMA provisions port companies, unlike airport companies and other infrastructure providers, are not currently identified as a "network utility operator" under the RMA.
35. Identification of port companies in this definition would provide the opportunity to apply to the Minister for approval as a requiring authority and accordingly give the port companies the opportunity to utilise the designation provisions of the RMA and undertake, through the Minister of Lands, Public Works Act 1981 powers.
36. This amendment is of potential importance to some port companies as it is cost prohibitive to establish any new large ports for freight purposes given the amount of land and dredging needed and the attendant transport infrastructure to serve a new port.
37. For all practical purposes, port companies can only expand in their current locations to meet future growth. Both the RMA and the New Zealand Coastal Policy Statement focus on the need to minimise harbour reclamations and to use existing land resources efficiently.
38. In many cases, there can be land uses directly adjacent to existing ports that have no functional need to locate next to a port. Such land might be more efficiently used for port activities thereby reducing the scale of new reclamations.

39. However, currently, port companies have no ability to designate land and publicly acquire land, unlike most other infrastructure providers such as railway operators, airports and utility companies. It is a striking anomaly that most other infrastructure providers have these powers but port companies do not.
40. While POAL supports many of the recent amendments made to the RMA to reduce costs and speed up the consenting process, especially for projects of national significance, these amendments have not been entirely successful and do not go far enough in POAL's opinion and further amendments are required. By way of example:

*Direct referral and Boards of Inquiry*

41. The ability for projects of national significance to be referred directly to the Environment Court or a Board of Inquiry, and other projects to be directly referred to the Environment Court with the agreement of a council, is a welcome amendment to the RMA.
42. This removes the requirement for a council hearing, particularly where a council decision on a project is likely to be appealed in any event and addresses a key RMA concern regarding the delays of attaining consent for projects, particularly under the Board of Inquiry process where a decision is required to be issued within nine months of the referral. The recent experience of several applicants before Boards of Inquiry is that the costs incurred are significant. While this reform may assist timeframes, it may not have assisted in reducing the high costs of the RMA system. Consideration should be given to further amendments or processes to address the issue of consenting costs.

*Security for costs*

43. The reintroduction of security for costs was a potentially useful provision to ensure that appeals to the Environment Court had substance and were not intended just to delay the consenting process or cause additional costs to applicants.
44. The amendment also had the potential to provide greater certainty that any costs ordered to be paid at the end of a case could be recovered from an unsuccessful party, especially in the case of incorporated societies with no assets or funds. However the Environment Court decision in *Mahanga E Tu Incorporated v Hawkes Bay Regional Council* (ENV-2010-WLG-000012) has cast doubt on the effectiveness of this amendment. At paragraph 19 of this decision, Principal Environment Court Judge Thompson held the following:
- . . . In the RMA context it is my view that the Court would need to have material before it which clearly demonstrated that the proceedings had little or no realistic prospect of success, and were being pursued for private benefit, with little or no element of public interest in promoting the purpose of the RMA.

45. This test is a very high threshold which we understand is more akin to a strike out application and is seldom, if ever, likely to be achieved. Given the broad nature of the RMA and the definition of effects, in almost every case an appellant will be able to identify a legitimate RMA effect on which to base an appeal. Without a substantive hearing of the issues and the benefit of expert evidence, it is difficult for a court to determine that an appellant has little or no realistic prospect of success. It is also easy for appellants to form an incorporated society for the purpose of running an appeal, thereby giving the appearance of a public interest element when the appeal really concerns private benefits, e.g. effects on private property and property values. Further amendments are required so that the security for costs provisions are workable in practice.

### *Filing fees*

46. It was appropriate that the Environment Court appeal filing fee was raised from \$55 to \$500, as it had not increased in some time. However, while the increase may have resulted in less appeals being filed, submitters have quickly learned that individual filing fees can be avoided by one submitter lodging a wide-ranging appeal, then other submitters can join that appeal as s274 parties. A s274 party does not have to pay a filing fee, but effectively has the same rights in the proceeding as an appellant, and for all practical purposes is treated as an appellant and can cause significant cost and delay. POAL considers that any person who joins an appeal should also be required to pay the same filing fee of \$500.

### Other more technical RMA amendments

47. POAL also considers that the following RMA amendments would also assist to improve international freight transport services provided by port companies:
48. *Assessment of s89 consents* - This section relates to activities to occur on top of a proposed reclamation. An amendment to the section is required to make it clear what the activity status for applications for activities on top of reclamations is. An amendment is also needed to clarify that the relevant provisions of the regional coastal plan can be taken into account by the territorial authority when considering an application under s89(2).
49. *Commencement of s89 consents* - Section 89(2) consents do not commence until a s245 certificate has been issued, which in turn cannot be issued until the reclamation is completed, a survey plan prepared, etc. It is not clear from whom an applicant should seek consent for certain works on the reclamation which will relate to the on-going operation of the activity on the reclamation, but which may need to be constructed at the same time as the reclamation is being constructed (ie before the s245 certificate is issued). An amendment is required to address this issue.
50. *Conditions of coastal permits for reclamations* - The RMA should be amended so that all coastal permits for reclamations become deemed land use consents upon the issuing of the s245 certificate, for any area above mean high water springs. This will prevent the current situation whereby consents from the

territorial authority and from the Regional Council/Minister contain conditions relating to the same works, and the confusion that arises when an applicant wishes to change the land use on the reclamation after the land has been brought into the district.

51. *The renewal provision in s124B* - This section provides priority rights to reapply for consents and it refers specifically to a person holding an existing consent to undertake an activity under s12, 13, 14 or 15 of the RMA. It does not refer to s384A consents granted to the port companies and it should be amended to make it clear that it does apply to these consents too.
52. A further significant concern, in respect of RMA processes, is the impact treaty settlements may have. For example, the concept of “co-governance” of harbours is mooted in respect of some settlements. This concept has the potential to make RMA processes even more convoluted and difficult, and to present further obstacles to efficient port company operations and development. The foreshore and seabed legislation recently passed contained important specific protections for regionally and nationally significant infrastructure, including ports, in respect of claims to customary title and customary rights. It is critical to the future efficiency of the sector that these protections are not undermined through treaty settlement agreements. The principles in respect of protection of critical infrastructure enshrined in the Marine and Coastal Area Act should also be reflected in treaty settlement agreements relating to harbours.

### **Comments on Table 2 Case Study (Page 20)**

53. The Commission’s case study breakdown of logistics costs on Page 20 has a number of quite significant anomalies which negates its value.
54. Firstly it is highly unlikely that a container from Singapore destined for Christchurch would be routed through Auckland via Onehunga. This option would be too expensive and it is more likely the container would be shipped directly to Christchurch. All lines today consider Auckland, Tauranga, Napier, Wellington (maybe) and Lyttelton as base ports meaning that they tend to apply the same base ocean-freight to/from all of these ports. Larger exporters might get lower rates when they load from areas where there are empty container surpluses.
55. A direct Singapore to Christchurch shipment would obviously remove the cartage cost from POAL to Onehunga, the port trans-shipment fee (a cost the shipping company would bear) and coastal shipping rate to Lyttelton. A Port Service Charge would apply at Lyttelton of about \$255 and cartage as stated.
56. We are aware of some charges being lower than those stated and others being the same or slightly higher. The major variances in our assessment are in the ocean-freight and BAF components, which can fluctuate depending upon supply/demand dynamics and global fuel prices.

57. POAL would expect the Ocean Freight total to be closer to around \$1300-\$1400 with the various charge items being valid.
58. Landed charges are in our view correct; however, not all importers use forwarders and therefore delivery order fees may not apply.
59. It is important to note that there is no direct or linear relationship between port charges to shipping lines, and freight rates charged to shippers/consignees. This is because they are being driven by two different markets.
60. A more realistic cost table for a Singapore to Auckland scenario is outlined below.

<b>Cost item</b>	<b>Cost (NZ\$)</b>	<b>Total</b>
Ocean freight - Singapore to Auckland	\$450	
Bunker (marine fuel) adjustment factor	\$475	
Currency adjustment factor	Nil	
NZ port service charges	\$345	
Shipping line document fee	\$50	
Terminal security fee	\$10	
<b>Ocean freight total</b>		<b>\$1330</b>
<b>Landed charges total as per original table</b>		<b>\$296</b>
Port vehicle booking system fee	\$5	
Local cartage	\$180	
<b>Freight to Auckland depot</b>		<b>\$185</b>
<b>TOTAL</b>		<b>\$1811</b>
		This compares to \$3197 in the MOT example.

61. It is worth reiterating that while the Commission's report notes that (Pg 24) ports charges represent only **6.3%** of total logistics costs for New Zealand businesses, to support better economic outcomes, all steps within the supply chain need to be considered to get a true understanding of supply chain efficiencies and costs.

Q5

**To what extent is there effective competition for customers between New Zealand ports? Has this led to lower prices and incentives for productivity improvements?**

62. Competition between POAL and Port of Tauranga (POT) has undoubtedly provided an incentive to lift productivity at POAL, and has reduced the prices paid by shipping lines. However, we are not aware that the potential cost benefits of competition have been captured by either ports or New Zealand's exporters and importers.
63. There is evidence that prices in some instances have been reduced below the economic cost of providing the service, which in the long term will reduce overall efficiency.

64. There also has to be recognition that, with the size of New Zealand and its geographic spread, comparisons with overseas countries are not always relevant. The United Kingdom only has two significant competitive ports, Felixstowe and Southampton; and France two, Marseilles and Le Havre; and both countries have far larger populations and economies than New Zealand.

Q6

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

65. Understanding port productivity and comparing productivity between ports is a complex issue.
66. We note that the Australian Waterline programme collects and reports data about both inputs and outputs, through a measure called Port Interface Cost Index, in order to provide a complete and balanced view of the productivity of Australian Container Terminals. As part of this port operators have to disclose aggregated stevedoring costs. This is appropriate, as it is important to understand that speed in itself (e.g. crane rate) is not a measure of productivity. For container ports such as POAL, productivity is best understood as cost per container relative to vessel berth rate.
67. It is therefore unfortunate that cost input measures comparable to those disclosed in Australia are not included in the scope of the New Zealand Ministry of Transport's (MOT's) Ports Productivity Benchmarking programme. Gathering and releasing what is in effect a partial data-set, while a step forward, may create inaccurate and unbalanced perceptions of port productivity.
68. What matters most to our shipping line customers (in addition to cost) is, regardless of when they arrive at POAL, getting their ships out on window (i.e. on time), so they can make their next port of call in time for their berth window there. If they miss their next berth window they risk being further delayed and can incur significant costs. What this means is that, so long overall vessel crane rate is adequate to ensure on time departure, a fast crane rate may be of little importance to customers, and they may in fact prefer to pay less for slower service. For example, vessels occasionally do not vacate the berth immediately (they prefer to wait for late come cargo).
69. It is also important to understand that average crane rate, the measure often cited to compare ports, needs to be considered in combination with crane intensity (i.e. number of cranes in operation) and other factors such as labour cost. Efficient berth rates can be achieved by a range of different combinations of crane rate, crane intensity and the volume of plant and labour (e.g. straddles) applied. In the end it is the berth rate relative to price that is most important to shipping line customers; POAL considers that vessel berth rate and cost per unit are the most appropriate measures of port performance.
70. Similarly, importers and exporters are not necessarily looking for the fastest or even the most technically 'efficient' option; rather, access to a menu of logistics

services, from which they can choose a combination of price, quality and timeliness that best meets their requirements. At times, what might seem to be an inefficient option from a 'supply chain' point of view (e.g. accepting into the port a consignment of containers without Customs Electronic Delivery Orders (CEDOs)) might be the best outcome for the customer, and one for which they are prepared to pay extra, if this is the difference between making the cut-off time for a shipment or not.

71. Individual priorities for importers and exporters include frequency, access to direct services, speed and price. Exporters of perishable goods, for example, are typically concerned about frequency and speed. Importers are highly focused on dwell time and how quickly they can get their goods once arrived.
72. All customers, including shipping lines, importers and exporters, are concerned about performance reliability and consistency (delivering what we say we will).
73. POAL's key performance indicators, including berth rate, crane rate, staff hours per container and truck turnaround times, are continuously monitored and analysed. A comprehensive series of environmental and other performance measures is also monitored and reported on publicly. Highlights from these figures are included below in the answer to Q77. POAL is willing to disclose more detailed information if requested.

Q7

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

74. Truck turn times, discharge/load rates (tons / units per hour), cost per unit (e.g. tonne) and ship turn times.

Q8

**Which overseas ports are appropriate comparators for New Zealand port performance? On what basis should this selection be made?**

75. This is a complex issue and one which it important to get right, in order to avoid making unfair comparisons or producing meaningless data. Tables such as Figure 13 and Figure 14 in the Commission's report are unscientific and unhelpful when attempting to understand container terminal productivity. They also paint an unflattering and unfair picture of POAL's performance relative to other ports. Stakeholders should be extremely wary of drawing conclusions from comparing the results of different container terminals.
76. Benchmarking against overseas container terminals can be undertaken effectively by choosing overseas ports with similar characteristics to New Zealand container terminals:
  - Environment
  - Planning
  - Relative costs of components

- Operating model legacy
- Supply chain infrastructures serving port
- Demand characteristics
- Overall scale.

77. The following factors also impact on comparisons:
- question of subsidies from local/central Government
  - percentage of empty and trans-shipment volumes
  - percentage of reefer containers
  - flexibility of labour force and the cost of labour
  - the ownership model and whether there is a split between underlying land ownership and operations
  - whether it is a hub port
  - berth utilisation peaks – daily, weekly, monthly and seasonal
  - the availability of back-up land area
  - dwell times.
78. There are not many container terminals around the world that are directly comparable to POAL and other New Zealand ports. This is because most other terminals are either bigger or running different sorts of equipment.
79. In identifying suitable ports to benchmark our performance against, POAL looks for straddle terminals operating gantry cranes on a similar land size, servicing similar ship sizes and with a similar cargo mix. It is also important to choose ports in jurisdictions with similar legislative/planning controls and environmental expectations to New Zealand.
80. Suitable container terminals for comparative purposes include Patricks in Melbourne, DP World in Adelaide and Tollerote in Europe. POAL often benchmarks against Gothenburg, a straddle terminal and city port with legacy issues and similar environmental legislation/expectations to New Zealand. Gothenburg also has a similar cargo mix and size of ships visiting to POAL. Comparisons with ports in Europe and the United States (jurisdictions with similar planning, labour and environmental controls to New Zealand) are also relevant.
81. However, it is meaningless to compare POAL and other New Zealand ports against the massive new international hub ports in Asia (e.g. Shanghai, Singapore, Hong Kong). These are effectively brand new ports developed in jurisdictions without the legislative framework faced in New Zealand and Australia, servicing much bigger vessels with a different cargo mix. This means that they are not comparable (see further explanation, below).
82. Even within New Zealand, it is important to understand that our ports are all quite different and to keep various background issues in mind. For example, POAL has significant legacy layout and operating model issues stemming from its long history as a seaport. POT (particularly Sulphur Point Container Terminal) is a much newer port and has essentially been developed on a greenfields basis post-containerisation – i.e. they were able to start from scratch and are able to expand more cheaply.

83. While we have attempted to explain the reasons behind variable performance between ports, it is still important that performance is compared, as it is relevant to efficiency regardless of the 'fairness' of the comparison in terms of inherent advantages.
84. Benchmarking against ports with alternative operating systems to straddle terminals is also important to understand what can be achieved with a change in modus operandi.

*Why it is meaningless to benchmark Australian and New Zealand legacy-style container terminals against massive new international trans-shipment hub ports in Asia*

85. The legacy of a container terminal can constrain its options for alternative operating models, including precluding options currently known to be more efficient / productive. For example, may not be economically feasible for a well established straddle carrier style container terminal [which is operating in a competitive market, at or near capacity] to migrate to a predominantly truck and trailer operation, because of the significant operational complexities, risks, and costs involved in same. While it is feasible for container terminals to change their modus operandi, and it has been done, when assessing it what model to move to, very significant transition issues and costs are relevant.
86. Furthermore, the nature and characteristics of demand vary greatly between container terminals. One critical factor is the ratio of trans-shipments versus imported versus exported containers, whereby trans-shipping containers is better suited to twin or quad lifting, and do not require a landside receipt or delivery, thereby greatly reducing the work required to process by comparison to imported and exported containers.
87. Import containers which dominate POAL's trade are more space intensive, because it is less efficient to stack import containers more than two high in a "one-over-two" straddle operation to practically allow sufficient space to access and remove the container for the [for all intents and purposes] randomly arriving driver.
88. Other factors influencing productivity include:
- The ratio of 20ft versus 40ft containers (whereby 20ft containers can be twin lifted);
  - The mix of empty versus full containers (whereby empty containers can be more easily twin lifted and can be picked to suit stack configuration as opposed to being selected to suit line requirements);
  - The nature of ships calling.
89. On this last point, exchanging 500 containers in one bay on a 14,000 TEU ship will be vastly more productive than working 500 containers across six bays on a small ship, because long [sideways] travel of ships is very slow and cumbersome compared with cross travel [trolleying] along the boom of the crane. Note also, that 14,000 TEU vessels are configured with cells that enable quad lifting, whereas a 1,500 TEU most likely would not.

90. The scale of the container terminal versus the scale of ships calling also has a great influence on 'lumpiness' and peak factor considerations, meaning that smaller ports must carry substantially greater quantity of land and capital equipment to cope with peak demand relative to much larger ports. For example the largest vessel (say 14,000 TEU) calling on a port with annual turnover of 20,000,000 containers is still quite a small blip in demand, where as a 4,500 TEU vessel calling Ports of Auckland with 800,000 TEU per annum is eight times more lumpy.

Q9

**Did port productivity improve during the 1990s? What were the drivers of those improvements?**

91. Yes. The 1990s was a period of significant labour reform at POAL (and other NZ ports) including opening 24/7 and operating all year around including public holidays. Other contributing factors included a large decrease in employee numbers and improvements in technology. Key legislative changes which facilitated these labour improvements have in some cases been reversed since then.
92. The global trend to containerisation has also been a major driver of productivity increases, for example through preventing the pilfering that used to be rife on the waterfront, and through sheer volume efficiencies.

Q10

**Did the rate of productivity improvements flatten during the 2000s? Why? What might reinvigorate performance improvement?**

93. At POAL productivity improvements have continued during the last ten years, with key drivers being investment in larger, more modern cranes (two in 2002 and three in 2007), larger ships and ship exchanges, and, in the second half of the decade, a stronger strategic focus on efficiency and productivity.
94. In recent years, the introduction of 'twin lifting' of containers and electronic monitoring of straddle driver performance have driven significant improvements in crane rate – now at record high levels at POAL. A notable improvement in staff hours per container was achieved following consolidation of Bledisloe and Fergusson container terminals into a single operational team in 2009.
95. Productivity gains have also been achieved through a push to encourage more off-peak truck movements and the introduction of a Vehicle Booking System to help manage demand for truck slots.
96. However, RMA and labour relations issues have continued to have a negative impact on port productivity and it is probably fair to say that the pace of improvement flattened compared to the previous decade, which had seen the fruits of major labour reform.

97. It is interesting to note that Maersk representatives remarked at a recent global conference that productivity (as measured by berth rates) at container terminals across the world, including at their own APM Terminals, has not improved in any significant way over the last decade, mainly because there had not been any step change in technology for the industry.
98. Looking forward, POAL continues to target productivity improvements. Further gains are achievable and remain a core part of our strategy, particularly with respect to achieving greater labour flexibility and enhancing workplace culture and engagement.

Q11

**What is the most appropriate way to measure port profitability? What is an appropriate rate of return on assets and equity?**

99. POAL's view is that (recognising the specialised nature of the port business) an acceptable WACC return is essential, so that the company will be in a position to invest adequately in the future.

Q12

**Is there evidence of a systematic problem of low port profitability? Or conversely, excessive profitability?**

100. We are not aware of any compelling evidence that New Zealand ports are making excessive profits or have market power negatively impacting on the tradeable sector.
101. On the contrary; as Auckland Regional Holdings noted in its 2009 'Long-term Optimisation of the Port Sector' paper, inadequate financial returns (below cost of capital) are an industry-wide issue for ports, resulting in port companies' local authority shareholders foregoing an estimated \$100 million of potential earnings (which in total is equivalent to over 20% of their annual rates income).

Q13

**What levels of investment have ports undertaken in recent years? Are they consistent with accessible and efficient services to exporters? Is there an over- or under- investment problem in ports?**

102. Since 2003, POAL has made substantial capacity investment in new cranes and straddles, and recent capacity enhancements via channel dredging and land reclamation have strengthened our position as the country's largest container port. These initiatives stand us in good stead for the immediate future.
103. However, the recessionary environment reinforced a primary focus on the way we operate, just as it has for the global shipping companies, and everyone in the domestic supply chain. POAL has made encouraging progress reducing

costs, working smarter and faster, exercising tight control on costs, and getting more done with less.

104. We have a strong focus on optimising the use of existing assets, generating continual productivity and efficiency improvements and finding new revenue streams.
105. In the wider ports sector, it is likely there has been some over-investment, and this is evidenced by the poor returns prevalent in the sector. Looking forward we believe some ports will only be prepared to make major investments on the back of firm, long term customer commitments and contracts, not in a speculative fashion (which probably has been the case, to some extent, in the past).

Q14

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

106. POAL does not believe New Zealand has too many ports. Rather than being 'over-ported', New Zealand is in fact facing a deficit of port infrastructure.
107. The anticipated rapid increase in population and freight demand in the upper North Island means that the total forecast combined capacity of POAL and POT will be insufficient to meet projected demand in the future. If an infrastructure deficit is to be avoided, additional capacity (probably at Northport) will need to be developed. Assuming POAL and POT are developed to their fully configured capacity, even using a conservative 5% compound annual growth rate in container volumes (the average over the last 20 years is 6.74%), this new port capacity will have to be online by about 2030.
108. For further detail on this point, we commend Auckland Regional Holdings' 2009 'Port Optimisation' paper to the Commission.
109. However, it is important to note that, looking backwards, the poor returns made by port companies are prima facie evidence that there has been over-investment (especially in container capacity). This supports our belief that while more capacity will be needed in the future, there may be opportunities for it to be introduced more efficiently than in the past.
110. While we note that a hierarchy of New Zealand ports is emerging naturally, given that New Zealand is a small, capital-constrained country, there may be national benefits in more strategically / optimally staging capital investment in 'lumpy' infrastructure. Port rationalisation or other moves to strengthen collaboration in a transparent form could help to ensure the supply chain is optimised more efficiently and sustainably, avoid duplication of investment, and ensure the most efficient timing and location of investment. We see improved collaboration over inland ports as a potential first step in this regard.

Q15/Q16

**Has local-authority ownership of majority stakes in New Zealand's commercial ports inhibited, enhanced or been neutral for the development of a more efficient and productive port sector? What changes in governance, regulations or ownership would offer the best means to improve port performance for exporters and importers?**

111. POAL's view is that it is the owner's prerogative to comment on these issues and refers the Commission to Auckland Council's submission.

Q17

**How much variation in the efficiency and productivity performance of ports is explained by the way that within-port activities are organized? Do 'contracting out' and 'landlord' models offer a way to increase competition for the benefit of exporters and importers**

112. Contracting out and landlord models are two separate issues. Landlord models deal with the ownership and financing structure of the port and are not relevant to productivity.

113. With regard to contracting out, third party stevedores already operate at POAL in the Multi-Cargo area, providing customers with choice and flexibility, and having positive flow-on effects on productivity.

114. There is a risk that container terminals with monopolies can over-capitalise and over-resource the container terminal with equipment, land and labour, and simply pass on the cost. Contestable container terminals, however, have to generate adequate returns to investors, whilst being a price taker, and are not able to afford to over-invest in order to arbitrarily achieve a headline crane rate. In the end, lower prices might be more important to the customers.

115. We acknowledge that sub-contracting is a feature of most efficient container ports around the world. However, POAL is currently exploring whether, with a workforce of direct employees, there can be sufficient flexibility in work practices to give the company the same or better access to labour (recognising the daily, weekly, monthly and seasonal peaks and troughs in shipping volumes) than are delivered under a 'contracted out' model. In our view, the challenge for POAL is to achieve the same or better levels of labour productivity while saving the marginal cost (and profit dividend) implied by a 'contracted out' model. However, contracting out will remain an option should the current engagement activities and labour negotiations not deliver the required amount of change and productivity improvements.

Q18

**To what extent do inflexible labour practices and difficulties in employer-union relationships remain an obstacle to lifting efficiency and productivity at New Zealand ports?**

116. POAL is committed to a collaborative and upfront approach with staff and unions, and to working together to achieve the changes that are necessary to take the company forward.
117. We have already made progress in this regard with pleasing productivity improvements being delivered by our people over the last five years (refer to the data at Q77).
118. However, embedded and inflexible labour practices are a major obstacle to further improving productivity and efficiency at POAL and other New Zealand ports.
119. Significant changes to work practices at POAL are required, with the company needing greater flexibility in order to operate efficiently and in a way that meets the needs of its customers now and into the future.
120. In particular, POAL needs to improve labour utilisation and reduce paid downtime. This means paying only for hours worked rather than over set shift times, and, without in any way undermining health and safety requirements, removing practices which result in staff being unavailable to work when needed to meet customer requirements e.g. over weekends.
121. POAL would welcome the opportunity to discuss these issues and relevant employment legislation with the Productivity Commission.

Q21

**What is the basis for the different regulatory treatment of imports and exports under the Commerce Act and Shipping Act? Is this differential treatment justified?**

122. In the past the differential regulatory treatment of contracts between shipping lines and importers/exporters has been justified by way of international legislative precedence. POAL considers that the default position should be that the Commerce Act applies to all. We don't see a compelling argument for the shipping lines to be treated differently to NZ ports.

Q23

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

123. Yes, the Commerce Commission would be better placed to oversee the regulation of international shipping services. The default position should be that the Commerce Act applies to all. We don't see a compelling argument for the lines to be treated differently to NZ ports.

Q47

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

- 124. There are several opportunities for improvement here.
- 125. Better electronic integration between agencies and ports on roll-on, roll off (RORO) & break bulk cargo would support significant efficiency improvements. For example, MAF releases of RORO are not streamlined and are subject to delays in release.
- 126. Customs' clearance of bills without cross-referencing house bills and bills of lading also causes concern. For example, Customs only release entire bills, not part bills.
- 127. There is a case for agencies (e.g. MAF, NZ Transport Agency) to be required to take a greater account of efficiency in carrying out their duties.
- 128. There would appear to be no reason why the procedures and timelines for processing air cargo should be different to those applicable for sea cargo.

Q51

**What changes in domestic transport institutions, policies and regulations might lead to the greatest improvements in the economic efficiency of the international logistics chain?**

- 129. POAL does not believe there is a level playing field with regard to investment and pricing policies across the supply chain. At the moment, road does not pay its way. This is to the disadvantage of coastal shipping in particular.

Q52

**How competitive is the freight forwarding industry that serves New Zealand's exporters and importers? Do the recent Commerce Commission investigations of a number of firms indicate that there are systemic problems, or that the regulatory and competition regime is working well?**

- 130. This is difficult to comment on as we have no direct pricing arrangements with freight forwarders.
- 131. We believe the industry is built on layers of competition where larger forwarders have a stronger power base and are able to influence more favourable pricing than smaller forwarders because of volume commitments to the shipping lines.
- 132. There are times when changes to shipping line services alter this dynamic, albeit briefly with lines incentivising 'friendly forwarders' to drive certain volume

behaviour. Those forwarders in turn target new business (other forwarders' cargo) which promotes competition.

133. We note freight forwarders are more strongly engaged with shipping lines on import cargo, while the lines themselves aim to maintain direct relationships with major exporters. Shipping Lines tend to price in such a way to protect their direct relationships with the larger exporters.

#### Q53

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

134. POAL has no specific data to contribute to this, only anecdotal feedback from customers where delays have caused lost sales or additional costs.
135. Commercial risk can be significant, for example, when importers get stock levels wrong or cannot meet customer demand, especially around key events such as Easter, Christmas and seasonal sales.
136. Transit time issues are also of critical importance for perishable exports where extended transit times can have a major impact on the shelf life of the product.
137. There has been much discussion recently about major shipping lines slow steaming with a view to reducing their fuel consumption as oil prices spike. Specifically for the chilled meat market this can have a major impact on shelf life, especially in the lucrative European market. Most other commodities can sustain a 3-4 day extended transit time, so long as the advertised dates are reliable.
138. In our view, the supply chain will typically adapt with reduced lead times, or increased stock inventory to cater for longer periods.

#### Q55

##### **Are there potential efficiency gains from vertical integration in New Zealand's international freight services? What are the disadvantages? What might need to change in order to encourage greater vertical integration?**

139. With approximately 2.2 million TEU of imports/exports (full and empties) and a further 250,000 TEU of trans-shipments handled by around seven major container ports each year our market is simply too small to see major efficiency gains from vertical integration.
140. Ports such as POAL are seeking to reach further into the supply chain to enable a more consistent flow of cargoes through their respective ports, thereby supporting the investment in costly infrastructure.
141. As noted above, port rationalisation or other moves to strengthen collaboration in a transparent form could ensure the supply chain is optimised more efficiently and sustainably, and avoid duplication of investment. We see improved collaboration over inland ports as a potential first step in this regard.

Q56

**Are there potential efficiency gains from the vertical unbundling of specific components or activities in New Zealand's international sea freight services? What are the disadvantages?**

142. To the degree to which it is happening today, there is a fair level of competitiveness, particularly between Ports.
143. Whether this is sustainable for a small trading nation such as New Zealand is questionable as Ports need to start considering heavy investment in infrastructure and capacity to cater for growth and the next generation of container vessel sizes.
144. As previously noted, improved collaboration between ports over inland port operations would be a healthy first step towards marginal productivity improvements.

Q57

**Should decisions on investments in ports and in the associated infrastructure links to ports be left to the judgments of the individual suppliers of the separate components? Or would some sort of overall strategic plan provide useful guidance and some assurance that complementary investments will happen?**

145. To a certain extent this already exists in the form of the National Infrastructure Plan. We believe individual ports are best placed to make decisions regarding investing in their own businesses.

Q58

**What is the scope for greater consolidation of ports, greater vertical integration of ports with domestic transport operators, or more use of long-term agreements between shippers and port companies, as possible means to overcome coordination problems and achieve more efficient international supply chains?**

146. As noted above, port rationalisation / consolidation or other moves to strengthen collaboration between logistics players in a transparent form could ensure the supply chain is optimised more efficiently and sustainably, avoid duplication of investment and ensure the most efficient timing and location of investment. We see improved collaboration over inland ports as a potential first step in this regard.
147. Central Government can play an important leadership role through:
- national trade and ports productivity data collection,
  - national demand forecasting and scenario analysis,
  - a national supply chain forum with representation from both government and key industry stakeholders to advise Government policy, and
  - decision-making regarding land transport policies and investment.

Q 59

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

148. Because of our individual ownership structure, if anything New Zealand is an extremely competitive environment for lines to negotiate with ports. This is in contrast to Australia where lines operate with only 2-3 terminal operators around the country.
149. On the other hand, POAL has occasionally experienced significant issues in contract negotiations in which shipping lines have shared information on the rates they are being charged by different ports.

Q60

**Is there an asymmetry of bargaining power between ports and shipping lines? If so, what is the impact of this asymmetry? Are there any regulatory measures that might reduce the asymmetry?**

150. Lines use their volume and threats of removing services or productivity/reward mechanisms to achieve lowest cost services.
151. The key objective for ports is to achieve an acceptable rate of return, but the high cost of capital can be easily exposed if a service moves to another port with a consequent reduction in port revenue.
152. Australian ports don't have quite the same issues because the internal costs to move cargo between Sydney and Melbourne are much higher than the stevedoring costs associated with handling the cargo over those ports. This means the direct port of call, closest to the cargo origin or destination is the most optimal.

Q63

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

The key areas are:

153. *Shipping Line Schedule Disruptions.* These are caused by weather issues, congestion at earlier ports or unplanned events such as breakdowns. They can only be addressed by building more time into shipping schedules and lines having a greater commitment to schedule adherence. Trade offs for the lines relate to cost and yield; the cost to speed up (and consume more bunkers [fuel]) to regain lost time versus the contribution the line gets from the carriage of the cargo to support such expense.
154. *Port Congestion.* These issues are typically caused by industrial disputes or pure capacity limitations, particularly in Australian ports on the Eastern seaboard. As many of the services calling New Zealand ports also call Australia, congestion at an Australian port means New Zealand ports come

under pressure to work vessels harder and have them sail on time. There is a balance to be struck between cost and ability to handle peaks. It may not be efficient overall, to invest to the extent necessary to ensure capacity is always available.

155. *Information flow with cargo owners.* Delays by importers and exporters to process their documentation on time result in on-port issues with releasing or loading cargo. Delays with CEDOs (Customs Electronic Delivery Orders), for example, mean ports struggle to control the flow of containers into port, and have to re-handle containers in the yard until the CEDO comes through. This occurs daily.
156. *Lack of supply to meet seasonal, unpredictable demand:* Ports capacity is tested annually due to a lack of visibility over expected volumes during the seasonal import and export peaks. This challenge is seen throughout the supply chain, starting with importers or exporters who have little idea or ability to share expected volumes or schedule information. A lot of this is due to competitive reasons. Transport companies then struggle to cater for demand, and consequently shipping lines and ports. There is an expectation by customers that seasonal peak demand can be absorbed by ports, but the question is how much and for how long before productivity starts to deteriorate and costs increase. This is an ongoing issue for POAL where we have been unable to get visibility over volume demand and can only refer to historic figures, which have changed over the last several years due to service changes, cargo owner supply chain changes between ports and economic factors such as the global financial crisis.

Q64

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

157. Yes, the imbalance of container use between imports and exports is a real issue in New Zealand.
158. New Zealand exporters ship high volumes of live (plugged in) reefer (refrigerated) cargoes which have a seasonal shipping profile, peaking in the February to June period. Conversely import volumes are mainly general cargo with the peak being September to December.
159. In container freight, where imports are primarily destined for Auckland and exports from Northland, Waikato, Canterbury and Southland, the lines spend considerable sums of money repositioning empty reefers to meet export demand.
160. The only practical solution to this is for the shipping lines to find the most optimal and sustainable ways of positioning containers in and around the country. These might include using non-operating reefer containers into New Zealand with dry goods in them, using surplus containers in Auckland for domestic cargo to Christchurch, for example, or repositioning empty containers from surplus points in Australia to deficit locations in New Zealand.

161. Large freight movers such as Fonterra are working closely with the key shipping lines to address these issues, and achieve overall cost efficiencies in their supply chain.

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?**

162. This sort of configuration is already working through Auckland, Tauranga, Port Chalmers and Lyttelton. Over the last several years there has been a significant shift towards vessel sharing arrangements (VSAs) where different lines share space on each other's vessels.
163. This enables use of larger tonnage (ships) and improved utilisation of space, providing for a more reliable and sustainable service and a degree of competition for lines to promote their own service levels to the customer base. Added to this is the increased connectivity between services where one string might post- or pre-feeder cargo to or from ports for trans-shipment to the likes of Auckland, Tauranga or Lyttelton.
164. To some extent, hubbing off Australia is already happening with some services. The question is really whether New Zealand ports will be the spoke to more intense hubbing in Australia.
165. There are some barriers to this at present. Australia has higher costs for trans-shipments and its own capacity and labour flexibility challenges. However, this dynamic might change if and when Australia becomes able to accommodate much larger vessels (e.g. 6,000 – 8,000 TEU). Port infrastructure limitations prevent this right now.
166. It is important to note that the market is competitive when it comes to choice of shipping line services. Cargo owners do have influence. The situation is very much market driven, both regionally and internationally, depending upon what is happening with the global shipping industry and cargo demand as a whole. Even if Australia does develop further as a trans-shipment hub, it is likely that there would always be enough demand for niche direct services from New Zealand to Asia, bypassing Australia.

Q68

**Are import and export opportunities excluded or constrained by the lack of access to international freight transport services? Are there changes in institutions, policies or regulations that could lead to better outcomes?**

167. POAL believes that cargo owners have choice and there is appropriate competition within the sector.

168. New Zealand is at the end of a long supply chain and cargo owners realise there is a cost to servicing our country.
169. Cargo owners need to be committed also to supporting and driving change for sustainable supply chain solutions. This comes down to forecasting, commitments to space agreements and working with stakeholders to improve supply chain efficiency.

Q69

**Is there scope for increased sharing of operational data between transport firms to achieve improved coordination and efficiency? How might this be achieved?**

170. Yes, most certainly. We are doing this today through greater use of electronic data interchange (EDI) and shipping line data to compare cargo pre-advice to booking information and identifying discrepancies before the cargo arrives.
171. Ongoing visibility regarding medium to long term demand would provide significant benefit in providing timely and 'right sized' transport and resource solutions. Industry portals and information sharing amongst key stakeholders is vital to achieving a sustainable and low cost supply chain for NZ Inc.
172. Transparency and collaboration over information-sharing is an important step toward increased productivity across the supply chain and POAL believes the New Zealand government should play a leadership role in this. Customs, MAF and FSA initiatives around Trade Single Window are vital, but must include the whole freight industry.
173. Australia has achieved this advantage already, with good information and systems around its port and shipping industry. New Zealand should be looking to learn from this instead of reinventing the wheel. For example, no cargo can be delivered to ports in Australia without an Export Clearance Number (ECN). As a result, ports have reasonable visibility as to what is coming their way with supporting information and customs approval before delivery to the port.
174. As noted above, New Zealand's CEDO (Customs Electronic Delivery Order) process includes no mandate to ensure cargo owners complete this before delivery to the Port. As a result, there are significant inefficiencies in processing and re-handling containers in the terminal yard. However, sometimes the 'inefficient' option is the best one for the customer, who may be prepared to pay a premium for it (see our comments regarding CEDOs in the answer to Question 6, above).
175. The fact that trucks carrying containers to or from our terminals are only approximately 50% utilised, is another example of lack of co-ordination and efficiency.

Q71

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

176. New Zealand ports are voluntarily providing data to MOT already as part of the Ports Productivity Benchmarking programme currently underway. We support this data being published and transparent, and look forward to the release of the study. However, as noted above, we believe the MOT study would be enhanced by the inclusion of data relating to cost inputs.

Q72

**Given likely future trends in trading patterns and transport technology, will the reliability, speed and efficiency of international logistics services be adequate for New Zealand's interests? If not, what can be done to leverage opportunities and mitigate risks?**

177. Shipping line services will continue to change and flex with market demands. Bigger vessels will come, although we believe the size ranges of 6,000-8,000 TEU are some years away, as New Zealand doesn't currently have the intensity of cargo volumes to drive this sort of ship size every week.

178. Cargo owners need options and there is considerable risk for "New Zealand Inc" should we become reliant on 1-2 large services each week where a vessel breakdown or delay could have a significant impact on supply chains. Volumes need to be spread.

179. Information flow and a reliable method for demand forecasting needs to be established so that the supply chain can better prepare and optimise resources to meet demand.

180. Beyond this, moves towards improved collaboration, for example, around inland ports would be a positive step towards improved supply chain co-ordination and productivity lift.

Q73

**What is the best way to achieve efficient decisions and coordination for the large, lumpy and interdependent investments that typically occur along international freight supply chains?**

181. As noted above, port rationalisation / consolidation or other moves to strengthen collaboration between logistics players in a transparent form could ensure the supply chain is optimised more efficiently and sustainably, avoid duplication of investment, and ensure the most efficient timing and location of investment. We see improved collaboration over inland ports as a potential first step in this regard.

Q77

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

	Capital expenditure POAL (\$m)	Container throughput (TEU)	Staff hours per container (index year 2000 = 200)
2006/07	79.4	773,160	197
2007/08	35.3	840,994	188
2008/09	21.0	843,590	174
2009/10	9.1	867,368	*158
2010/11	14.4	894,383	165

\* Impact of the consolidation of two stevedoring teams into one with an associated increase in labour utilisation and reduction in staff numbers.

### POAL - Waterline Standard Measures

	Crane rate	Vessel Working Rate / Berth Rate	Ship Rate	Average Crane Intensity
2006/07	23.47	Data not available	Data not available	Data not available
2007/08	24.86	Data not available	Data not available	Data not available
2008/09	26.48	51.22	55.70	2.11
2009/10	25.52	49.76	53.06	2.08
2010/11	26.31	53.77	63.47	2.26

Q79

**What are the most important issues for the Commission to focus on to achieve the greatest improvements in the efficiency and productivity of New Zealand's international freight transport services?**

182. Productivity improvements will come from new technologies, better processes and smarter working practices.

183. The most important issues for the Commission to consider include:

- Shifting responsibility for overseeing the regulation of international shipping services from MOT to the Commerce Commission. Refer to our response to Q23.
- Whole of supply chain approach. Refer to our response to Q2.
- RMA reform. Refer to our response to Q4.
- Appropriate performance measurements when comparing and understanding ports productivity. Refer to our responses to Q6, Q7 and Q8.
- Possible future Upper North Island infrastructure deficit in ports, once capacity exhausted at POAL and POT.
- Future of rail and coastal shipping.
- Road pricing. Refer to our response to Q51.
- Employment practices. Refer to our response to Q18.

## Appendix I

Key excerpts from the recent (May 2011) Ministry of Economic Development report “Economic Linkages between New Zealand Cities”.

### 1.3.2 Economic Structure

“A key observation is that the three cities [Auckland, Tauranga and Hamilton] display fundamentally different economic foundations and that the economic prosperity of the three cities is strongly influenced by these foundations. Auckland dominates in the business services and financial sectors, providing high level services to the other areas and as discussed above dominates in the distribution sector supplying a range of goods and value added services to the other two cities. However, the linkages in the reverse direction, other than those concerned with the movement of freight are relatively weak.

For the other two cities, their economic structure is strongly influenced by their regional roles. Like most New Zealand provincial cities, the most important factor in Hamilton’s initial growth was its role as a service centre for the surrounding rural area, in this case the Waikato with a strong dairy industry. Subsequently Hamilton has been able to use this strong economic base to develop expanded opportunities for example, through the generalisation of agri-science and advanced engineering activity into new markets. Metals manufacturing activity in Hamilton is now serving both the national and international market having developed from a support activity servicing dairying and milk production. There is now a strong interaction between the agricultural sector in Hamilton and research and development of advanced equipment to support the dairy industry or of processes to increase the efficiency of dairy farming.

In contrast, the underlying economic foundations for Tauranga are weaker [than Hamilton], in part caused by the relative remoteness of the city from other major areas of economic activity and in part by the limited opportunities for larger scale value added activities linked with production in the city or its rural hinterland. Tauranga’s most obvious recent economic advantage has been its attractiveness as a lifestyle location. Maintaining high levels of amenity in the face of rapid population growth will be a key challenge. While it is likely that there is an important role for Tauranga as a service centre and possibly local manufacturing centre for the Bay of Plenty, this is likely to be more significant in a regional rather than a national context.

### 1.3.3 *The presence of a city-system?*

Rather than revealing the emergence of a city-system encapsulating Auckland, Hamilton and Tauranga, we actually find that Auckland’s scale is paramount. The central tenets of economic geography strongly suggest that increasing Auckland’s scale will be economically beneficial, as will reducing Auckland’s isolation from the broader Australasian economic region and encouraging its economic diversification.

Therefore, an important question for us to consider is whether the growth of Hamilton and Tauranga will contribute positively towards increasing Auckland’s economic scale, diversity and connectivity to other economic regions of Australasia or whether growth in these cities which occurs at the expense of Auckland would lead to a lower level of economic output?

A main conclusion is that from a labour market and employment structure perspective, inter-relationships between the three cities are relatively weak. More broadly, while economic activity in Auckland plays an important part in supporting the economies of Hamilton and Tauranga, the linkages in the opposite direction are limited.

Looking to the future the potential effects of a range of alternative future growth scenarios for the three cities were evaluated. A part of the analysis of these scenarios highlights responses to differences in the growth of employment, and in particular balances of employment within and between the three cities. The results indicate that higher levels of productivity and output for the region as a whole would be achieved by concentrating employment in the central areas of Auckland rather than by spreading this more widely across the region or switching this to Hamilton or Tauranga.

The impacts on economic development of changes in the level of inter-urban and intraurban accessibility have also been assessed. While the scale of the forecast response is relatively small in relation to employment changes, these tests indicate the importance of improving accessibility within the urban areas, where an increasing level of economic activity is likely to be located.

We do not find a strong case for the emergence of a city-system between the three city regions and our analysis indicates that a policy intended to maximise the benefits of agglomeration would be better served by encouraging the growth of Auckland, rather than encouraging the spreading of activity more widely across the three cities.

#### *1.3.4 Transport context*

Putting this into a transport context, the continued growth within the three cities of population, employment, trade in goods and services and social activities will inevitably place increasing pressure on transport systems, both within and between the cities.

However, most of these additional trips can be expected to take place within each city. Importantly, our analysis also indicates that relieving urban accessibility constraints will be most likely to support productivity growth:

- Firstly, due of the relatively self-contained nature of the three economies.
- Secondly, because the most productive activities tend to undertaken in areas of high employment density and rely heavily on good accessibility for workers.
- Thirdly, as inter-regional road trips tend to start and/or finish within urban areas and it is the portion of the trip which takes within the urban area which is most susceptible to the effects of congestion.”