

# **SUBMISSION**

## **OVERVIEW**

Lyttelton Port Company Limited (LPC) is supportive of this investigation into the International Freight Transport Study.

We are also a party to the submissions from the Port Company's group and this paper is an addition to that submission.

LPC believe that transport adds value to goods by creating markets.

The objective of the study must be to look at how more trade can be enabled through better transport services.

In order to examine this topic fully all aspects of transport from source to destination need to be examined in a holistic manner. As an example, international container lines examine the cargo available, the inland transport costs (as they contract directly with exporters) and port service/cost levels before deciding on where to call and what sized vessels to put on a run. Without the inland transport leg included, the analysis around efficiency is incomplete.

The key issues from a ports perspective revolve around service levels, productivity, pricing and returns on investment. When we compare with other international ports this basket needs to be looked at as a whole.

## **SPECIFIC QUESTIONS**

### **Question 1**

If an economic efficiency perspective is used for the inquiry, then this needs to measure and take into account the relative proportions of costs for each phase of the logistics chain. The paper already makes the point on page 24 that port charges represent only 6.3% of total logistics costs for NZ businesses. In addition to missing the service aspect, there is a risk that a narrow focus on economic efficiency will in fact miss the major cost components for NZ businesses.

Exports of chilled product need timely transport to market; days slow steaming reduce the value of the product. Some ships want a slow turnaround due to being ahead of schedule, economic efficiency does not necessarily equate to service.

### **Question 2**

The framework is too narrow. As described in the overview above, all aspects of trade costs needs to be examined in order to ensure a true focus on efficiency and cost from the perspective of a NZ business.

### **Question 3**

Some focus on Government agency involvement within each phase of the logistics process and costs/charges should be included in the focus of the inquiry.

## **Page 20 - Table 2**

Firstly a container from Singapore to Christchurch does not go via Auckland, it is too expensive - it goes direct.

Secondly the "NZ Service Charges" are an amalgam of agent's fees and port costs. These need to be split out.

The major point here is that Government charges as a whole are often more than port charges!

### **Question 5**

Figure 2 on page 6 identifies ports as natural monopolies but question 5 asks how effective has competition been between NZ ports.

A quick comparison across the Tasman will show that for containers the productivity is similar but in NZ the prices (as a whole) are much lower. Competition has forced this result. Productivity and service gains over a number of years have been driven by competition, for example Lyttelton vs Port Chalmers, Tauranga vs Auckland.

### **Question 6**

The most appropriate measure is pilot station to pilot station as it includes all delays. The problem is this is not recorded. In comparing relative port performance, it is important to consider both scale (NZ ports are generally small in terms of volumes handled) and equivalent limited land areas and support services.

### **Question 10**

We need to look at the data. To our knowledge LPC improved during this time, unfortunately the NZIER study did not look at the last eight years.

### **Question 14**

Parochial ownership makes rationalisation via acquisitions or mergers more difficult. Normal commercial drivers are not the only factors taken into account by the current owners.

### **Question 17**

NZ ports are normally of a small scale. This means that multiple terminal operations are not economic. The landlord model is used in Australia, particularly in the metropolitan ports. The result is a lot of private monopolies that push up prices for

- Pilotage
- Towage services
- Lines
- Container stevedoring etc

Melbourne is a very good example of this.

### **Question 18**

Waterfront labour tends to have a monopoly (Union organized) in most developed countries. However, it is worth noting that LPC (in common with some other NZ ports) has been able to work positively with staff and Unions to achieve ongoing productivity improvements in key areas such as container terminals.

### **Question 19**

The level of competition is driven by the number of lines supplying services.

### **Question 51**

The current playing field is uneven. Road transport is heavily subsidized, rail partially and sea none.

### **Question 53**

The cost of transit times are critical for some cargoes.

Chilled product

- Has a finite life, each additional day in transit significantly reduces value.

Other cargoes

- The time has little impact - in fact it can be cheap storage.

### **Question 55**

Given the small scale of NZ ports vertical integration will lead to monopoly positions for some lines to the detriment of NZ.

### **Question 57**

To date the Government has abdicated its responsibility for planning an integrated whole of transport. If parochial interests are put aside there will be benefits. A wider planning perspective that balances national interests in terms of efficiency and service with parochial concerns for maintaining current services will provide benefits in terms of port rationalization and ongoing efficiencies.

### **Question 60**

There has not been asymmetry because of the purchasing power and economic clout of large internationally based shipping companies. Regulation is unlikely to help this.

### **Question 64**

The imbalance depends on the particular trades. In LPC's case imports and exports are virtually balanced. The sub-economic outcome is that shipping lines charge the same rate regardless of two legs or one to the same port.

### **Question 65**

NZ already has a major hub called Singapore. The benefit to date has been increased competition for freight.

### **Question 71**

While data may be of general interest, the key players already know the critical information on which they base decisions.

### **Question 73 and 74**

Centralised strategic planning (NZ Ports Authority) has been tried and proven a failure. The Government should set some longer term goals and operating parameters, put the appropriate regulatory regime in place and then leave ongoing competition to sort out how services are rationalized.

### **Question 78**

The paper has failed to look at the entire transport network.

There has in the past been work done on "shippers choice" models. This brings in not only the cost elements by the service attributes by product. This approach will give a better framework to look at required changes to the transport network.

We look forward to further consultation as this project moves forward.



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