

Submission by



to the

PRODUCTIVITY COMMISSION

on the

IMPROVING ECONOMIC RESILIENCE

17th April 2022

GENERAL DISCUSSION

Business New Zealand and Export New Zealand welcome the opportunity to comment on the 'Improving Economic Resilience' issues paper on behalf of our members.

Given New Zealand's distance from large international markets, and dependence on trade for economic prosperity, New Zealand Inc. needs a robust and reliable freight and supply chain system.

The Covid-19 pandemic highlighted the many flow-on impacts of disruption in the supply chain. Throughout the pandemic, the many many flow-on impacts of supply chain disruption became evident. Businesses were unable to receive components to complete the manufacture of their products. Many businesses had difficulty finding container space, and some were paying up to 400% more. Many businesses had to lease warehouse space for extra storage of raw materials. Many of these businesses were unable to increase their prices as they needed to remain globally competitive. Businesses felt the full impact of New Zealand's distance from international markets.

FEEDBACK ON THE INITIAL SET OF QUESTIONS:

Q.1 What supply chain disruptions and trends are you worried about?:

- 1.1 Cost and reliability: In the 2022 ExportNZ DHL Export Barometer survey, cost and availability of transport and logistics remained the top issue for exporters for the third year in a row. Approximately 88% of respondents reported both delayed transit times and increased costs and 47% of respondents reported being unable to get shipping space.
- 1.2 Non-tariff barriers: These can cause disruptions at ports.
- 1.3 Cybersecurity: The increasing use of technology and digital platforms in supply chain management creates new vulnerabilities for cyber attacks, data breaches, and ransomware attacks that can impact the entire supply chain.
- 1.4 Climate change: Extreme weather events, natural disasters, and other climate-related risks can disrupt supply chain operations, causing delays, shortages, and increased costs. Cyclone Gabrielle highlighted how fragile our road and rail networks are.
- 1.5 Geopolitical tensions: Rising tensions between countries and political instability can lead to trade restrictions, sanctions, and supply chain disruptions.

Q.2 What is your industry/community currently doing or planning to do to address supply chain issues?

- 2.1 Businesses have had to adapt to meet supply chain constraints. The paper rightly points out that businesses are moving away from just-in-time (JIT) supply chains for many reasons. The global COVID-19 pandemic highlighted the fragility of operating in this manner. The delays and disruptions caused by factory shutdowns, transportation disruptions, and border closures, cause significant disruptions to supply chains worldwide. However, many of the broader disruptions outlined in Q.1 have resulted in businesses adopting a 'Just in case' approach to managing their supply chains.
- 2.2 Businesses have had to implement various strategies to mitigate supply chain constraints and disruptions. The business community tells us that they have:
 1. Diversified their supply sources into their supply chain networks.
 2. Increased stock on hand.
 3. Invested in digital technologies, such as blockchain and artificial intelligence, to better track and manage their supply chains.

4. Focussed on developing closer relationships with their suppliers, ensuring better communication and collaboration.
5. Adopted agile manufacturing strategies that allow them to quickly pivot their production processes to address changing demand patterns and supply chain disruptions.
6. Increased investment in manufacturing outside of New Zealand (offshoring) and in some cases employing more staff in overseas offices.

Q.3 How can the government help to enhance the resilience of your industry/community to supply chain disruptions?

3. Investing in New Zealand's transport network holistically:

- 3.1 While there is little the New Zealand government can do to prevent disruptions to the international supply chain system, ensuring that domestic supply chain systems are robust and allow businesses to be agile is key to developing a future-proof supply chain system strategy.
- 3.2 We would like to see investment in New Zealand's domestic freight and supply chain system prioritised. The announcement in May 2022 that the Government has committed \$30 million of funding for coastal shipping to improve domestic shipping services, reduce emissions, improve efficiency and upgrade maritime infrastructure is a welcome start.
- 3.3 Further investment in upgrading and increasing coastal shipping and KiwiRail capacity to ensure domestic freight moves smoothly regionally is vital to building a robust domestic supply chain. For coastal shipping to work efficiently, ports will need to improve their infrastructure to be able to handle the extra movements double-handling of containers will create. We understand that currently, no New Zealand ports are equipped for coastal-to-international shipping transfers.
- 3.4 Key freight routes must be identified, and investment in maintaining and upgrading the transport infrastructure on these routes should be a priority.
- 3.5 More coastal shipping, rail capacity, and investment in the roading network would help increase the resilience of the supply chain and help regional ports to get goods to market. Investment in infrastructure such as freight hubs and greater port capacity would unlock multi-modal options. Having capacity in these modes is likely to become more important as incentives to decarbonise increase. But New Zealand must get the right amount of investment from the right sources. New Zealand's supply chains in and out of the country are our lifeline, our country must get it right the first time.
- 3.6 In the aftermath of Cyclone Gabrielle, coastal shipping routes between Napier and Gisbornes 'blue highway' were stood up at pace to mitigate as much supply chain disruption as possible. Many exporters are hopeful that this service will continue.

4 Labour shortages:

- 4.1 The freight sector is currently facing significant labor shortages, which have been exacerbated by the COVID-19 pandemic. The shortage of qualified drivers, mechanics, and other skilled workers has made it difficult to expand operations to meet the growing demand. Additionally, the sector has an aging workforce, with many workers nearing retirement age, further exacerbating the shortage of skilled labor.
- 4.2 Stakeholders in the supply chain system, including transport and logistics providers, importers and exporters from a range of industries, industry associations, and transport unions agreed that labour shortages are one of the top issues in the sector.

- 4.3 To address these issues, the industry is looking at ways to attract and retain workers, including offering competitive wages and benefits packages and investing in training programs to upskill the existing workforce. Where the domestic supply of labour is strained, both industry and government need to work in partnership to ensure that the pipeline of talent for these roles is available through immigration.
- 4.4 Immigration is a vital part of New Zealand's labour market. The current direction of travel for immigration settings is a focus on accepting skilled immigrants rather than unskilled immigrants (from July, this would be as defined by being paid the median wage.) While immigration for jobs paying below that level will become harder, this is where most of the labour market demand is. Like many industries, the freight and supply chain system relies on a simple, clear, sustainable immigration system to help to fill its labour force. Internationally, there is a sustained and ongoing shortage of highly skilled workers both globally and throughout New Zealand in the freight and logistics industry. New Zealand's immigration policy needs to support the attraction of migrant workers in this field.

5 Port ownership and productivity:

- 5.1 The high level of local authority port ownership amongst New Zealand ports could be leading to inefficient investment in ports for parochial reasons. A mixed ownership model, where ports are more commercially operated, such as the port of Tauranga, has resulted in increased productivity. However, encouraging local councils to give up their commercial activities voluntarily, without either covert or overt pressure from the central government may be difficult.
- 5.2 BusinessNZ and ExportNZ advocate for the movement and streamlining of infrastructure projects that are of National significance in building capacity and resilience to New Zealand's supply chain. Projects such as the Stella Passage Project in the Port of Tauranga should be fast-tracked through the resource consent process and red tape should be cut given the benefits to the supply chain system. This was recently highlighted in the 30-year Infrastructure Strategy from the NZ Infrastructure Commission which noted that approval for key infrastructure projects in New Zealand faces more widespread appeals than almost all other OECD countries.

6 The digitization of certification:

- 6.1 BusinessNZ and ExportNZ are supportive of The Future of Certification programme that will replace and modernise New Zealand's electronic certification systems for exporting. These systems enable \$33 billion worth of export trade and support biosecurity.
- 6.2 Food and beverage exporters have expressed that the traditional paper-based e-cert process in its current form is unreliable. It involves the physical transportation of paper certificates and documentation between different entities in the supply chain, leading to delays, errors, and lost documents. Digitization of the certification process can mitigate these impacts by allowing for real-time tracking, verification, and sharing of digital documents across the supply chain. This can improve supply chain transparency, reduce costs, and enhance sustainability efforts by reducing paper waste. Overall, digitization of the certification process is essential for streamlining supply chain operations and ensuring efficient and reliable delivery of goods.
- 6.3 BusinessNZ and ExportNZ recommend that the Productivity Commission connect with GS1 New Zealand on the future of digital trade and certification. Global standards on how data is structured (e.g. barcodes and QR codes) allow for tracking and visibility of product movement along the supply chain.

7 Non-tariff barriers:

- 7.1 Non-tariff barriers (NTBs) can cause supply chain problems by creating additional requirements, restrictions, or regulations that can slow down or disrupt the flow of goods and services.
- 7.2 NTBs may require specific technical standards or certifications that suppliers must comply with to enter a market. These requirements can vary from country to country and can be difficult and expensive to meet. This can create delays in the supply chain and increase costs for suppliers.
- 7.3 NTBs can require additional paperwork or documentation, such as customs forms or permits, that can slow down the clearance process at borders. This can cause delays in the supply chain and increase the risk of goods being held up at ports or border crossings.
- 7.4 NTBs can impose regulations on the types of products that can be imported/exported. These regulations may require additional testing, labeling, or certification, which can be costly and time-consuming. This can make it difficult for suppliers to enter a market and may limit consumer choice.
- 7.5 BusinessNZ and ExportNZ encourage officials from the regulatory side, as well as those who are negotiating free trade agreements to keep working to simplify and remove non-tariff barriers. Though we acknowledge that this is not simple in the global context, some work can be done domestically to streamline regulatory burdens with trading partners. An example of this is within the Therapeutic Products Bill which is requiring a regulator to be set up to approve the use of approximately 20,000 natural health products and approximately 250,000 medical devices that are currently in circulation. In the case of medical devices, these products are already meeting international standards. These products are vital to New Zealand's healthcare sector. The Medical Technology Association estimates that as the current proposed legislation stands, at a rate of 75 product approvals per day, it would take 5 years for all existing products to be approved. This would not be conducive to a resilient and agile supply chain.

8 International co-operation

- 8.1 BusinessNZ and ExportNZ are pleased to see New Zealand making joint commitments on supply chain resilience with our trading partners. During the Covid-19 pandemic, New Zealand signed a Joint Ministerial Statement with Australia, Brunei Darussalam, Canada, Chile, the People's Republic of China, Lao People's Democratic Republic, the Republic of the Union of Myanmar, Nauru, Singapore, the United Arab Emirates, and Uruguay affirming commitment to ensuring supply chain connectivity amidst the COVID-19 situation. We have since seen various commitments to limit supply chain disruption with Japan, Singapore, and Australia.

9 Planning for the future

- 9.1 New Zealand is not a small country. We are a large country with a small population. How big do we want to be by 2050 and are we planning for sustainable growth? Bigger populations lead to economies of scale and increased investment in infrastructure and logistics. The OECD suggests that Australia's scale more than compensates for the adverse effects of distance from markets.
- 9.2 BusinessNZ and ExportNZ advocate for any long-term freight and supply chain strategy to factor in the growth of New Zealand's domestic population and invest accordingly. A larger domestic population would lead to more demand and would put pressure on the

existing supply chain system. Investment should follow the population growth to keep up with increasing demand.

For any queries, please contact me below.

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ABOUT BUSINESSNZ

[BusinessNZ](#) is New Zealand's largest business advocacy body, representing:

- Regional business groups [Employers' and Manufacturers' Association](#), [Business Central](#), [Canterbury Employers' Chamber of Commerce](#), and [Business South](#).
- [Major Companies Group](#) of New Zealand's largest businesses.
- [Gold Group](#) of medium-sized businesses.
- [Affiliated Industries Group](#) of national industry associations.
- [ExportNZ](#) representing New Zealand exporting enterprises.
- [ManufacturingNZ](#) representing New Zealand manufacturing enterprises.
- [Sustainable Business Council](#) of enterprises leading sustainable business practice.
- [BusinessNZ Energy Council](#) of enterprises leading sustainable energy production and use.
- [Buy NZ Made](#) representing producers, retailers and consumers of New Zealand-made goods.

ABOUT EXPORTNZ

ExportNZ is a national industry association representing a diverse range of exporters throughout New Zealand. ExportNZ is a division of BusinessNZ, New Zealand's peak business advocacy body.

We are a membership organisation and across our two brands have approximately 2,000 export members. We also have four regional partners: Employers Manufacturers Association (Upper North Island), Business Central (Lower North Island), Canterbury Employers Chamber of Commerce (Upper South Island) and Otago Southland Employers Association (Lower South Island) which between them represents the bulk of manufacturers in New Zealand.

Our value proposition for members is a mixture of policy and advocacy, education and training, networking, trade missions and inspiration through awards events and conferences.

