



## **Packaging New Zealand – Submission to the Productivity Commission on the Issues Paper for the Improving Economic Resilience inquiry**

Packaging New Zealand welcomes the opportunity to submit on the Productivity Commission on the Issues Paper for the Improving Economic Resilience inquiry.

Packaging New Zealand is Aotearoa New Zealand’s peak body for the integrated packaging sector, with manufacturing, users, and recycling members from across the country’s business landscape. The packaging sector is responsible for about 2% of New Zealand’s GDP and directly employs over 50,000 New Zealanders. It enables roughly \$60 billion of exports and \$96 billion of manufacturing revenue.

Our organisation was formed over 30 years ago via an Accord with Government, whereby industry and regulators worked toward common goals and clear objectives.

In our submission we have responded to each of the four questions posed by the Productivity Commission. Our key issues and recommendations pertain to:

- Issues around plastics
- Response to disruption
- Shipping delays
- Workforce
- Costs
- Investment
- Clarity around policy
- Enabling onshore manufacturing
- Risks posed by standards development practices
- Inter-agency collaboration
- Trade considerations
- Trade-offs during transition
- Opportunity costs of short-term policy settings
- The function and purpose of the (now historic) Packaging Accord
- Trade Act (Countervailing and Antidumping Duties) protections from unfair competition

## **Question 1: What supply chain disruptions and trends are you worried about?**

### **Issues around plastics**

There are several significant supply chain issues for plastics at the moment.

#### **Proposals to reclassify all plastic raw materials (solids under 5pmm) as dangerous goods for shipping**

International Maritime Organisation is giving consideration to proposals to reclassify all plastic raw materials (solids under 5pmm) as dangerous goods for shipping. Class 9 under International Maritime Dangerous Goods Code is suggested with MARPOL as the instrument.

Supply chain impacts would be extremely significant – both in terms of cost and lead-times. The proposal does not solve root cause of spills and container loss from ships (incident that triggered proposals was caused by leaking dangerous-goods container).

Global industry is working together and has proposed alternative regulations that improve transparency and handling of plastics on ships, without burdening supply chains with costly, and ineffective, compliance requirements.

There has been lack of government consultation with impacted parties. It appears that dangerous-goods labelling can only be applied to the shipping leg of a journey only, which is not practical, or logistically realistic.

#### **Suggestions to place ‘production caps’ on plastic raw materials**

Through the Global Plastics Agreement, there are suggestions to place ‘production caps’ on plastic raw materials.

Government (MfE and MFAT) are consulting well on this. However, there is a very strong push by UNEP for this.

New Zealand already receives many raw materials ‘on allocation’ – volume for the country is fixed for a timeframe (typically 12 months) and no additional material is available during that time unless it can be sourced through third-party distributors.

Production caps would set up additional competition for raw materials, likely increasing the number of grades ‘on allocation’. As a very small market this is a risk for New Zealand, as market access becomes more challenging.

Production caps will also likely set up competition between sectors. Polyethylene materials are utilised across most sectors (for example, medical, transport, food and beverage, infrastructure and construction, agriculture, et cetera). Global population is increasing, and the global south is pursuing economic growth and improved quality of life for their peoples. Production caps would not only create false competition between sectors, but also limit the ability for developing nations to close the gap – the global north being able to afford higher pricing for resources.

#### **Many major global shipping companies to stop carrying waste plastics**

There has been a decision by three fifths of the major global shipping companies to stop carrying waste plastics. They are claiming to be doing this for the environment, but it is most likely cost driven as they don't make as much money out of waste transport as they do with other commodities.

Actual impact is restricting the trade of highly recyclable materials (such as clean, sorted, and clear PET), preventing circularity of those materials. While over time many medium to large nations will be able to internalise reprocessing capability and deal with much of their own waste, doing it right now simply increases how much is ending up in landfill (resource loss). This approach also doesn't work for small nations (like Pacific Islands) that do not have, and are unlikely to have, local reprocessing capability.

### **Response to disruption**

Global supply chains are responding to the commercial opportunities presented by disruption, corresponding rationalisation, and efficient return on capital.

New Zealand's transport and port strategies and investments need to be shaped to take advantage of these changes. If we don't achieve this alignment New Zealand will not be competitive globally.

### **Shipping delays**

This is an obvious issue, and one that has had an impact on our customers and businesses. While this has improved since the COVID-19 pandemic, it is still being felt. Consideration should be given to what can be done domestically to improve timeframes, and to whether something can be done internationally.

### **Workforce**

More attention needs to be given to workforce development in certain sectors. We also have a workforce shortage in the packaging industry, and this of course creates supply chain issues. It would be beneficial to look into both existing shortages, and future and potential shortages that will be caused by new legislation and by other influences.

The current ambiguity in some policy areas is also making it difficult for our sector to respond in the appropriate way. For example, the container returns scheme has now been deferred. Industry has not known well enough what was happening, meaning businesses could not invest in the required people and assets.

### **Costs**

As will likely be a universal issue across industries, rising costs have been problematic for our industry. We are also mindful of any costs that will be brought about by new legislation. Rising costs means that we also have to lift our prices – meaning that customers may go to different sellers overseas where feasible, ultimately transforming the supply chains for those industries.

## **Question 2: What is your industry / community currently doing or planning to do to address supply chain concerns?**

Packaging New Zealand's members are commercially vulnerable where inadequate attention is paid to the resilience of their individual supply chains.

Recent events, including the COVID pandemic and shipping disruption, has undoubtedly brought the supply chain into sharper focus. Our members are reporting an increasing working capital cost through the stockpiling of critical feedstocks and equipment.

We suggest that the need for maintaining current levels of supply chain resilience, with regard to the ability of businesses and industries to do so, should be a matter of regular review and adjustment by those operating profitably in New Zealand over time.

It needs to be stressed that the resilience of our members' supply chains will be affected by the status of those members' businesses, and by their customers.

There is little capacity for any business to risk a broader and more costly approach to supply chain resilience in New Zealand' open trading environment, apart from instances where such resilience is a matter of public interest.

Further, Packaging industry businesses are price takers, and we live with the services that we are provided.

One thing that we do is de-risk supply chain brittleness by overordering and holding more stock than we would typically. There is a cost to this where we lose the efficiency of deployment of capital.

## **Question 3: How can the government help to ensure the resilience of your industry / community to supply chain disruptions?**

### **To maintain our global competitiveness, the government needs to be decisive around medium-term infrastructure investment**

Government needs to determine what infrastructure will help optimise industry and supply chains, and it needs to invest in it. The packaging industry can advise on what would be beneficial in its sector.

We are also concerned that the scope of activities in the waste and packaging spaces is not large enough to ensure that we keep pace with the changing requirements of our overseas trading partners. If New Zealand does not keep up with the requirements, which may for example require use of new packaging material or technology, there will be significant supply chain issues affecting the industries using the affected packaging, which could slow trade until it is addressed.

## **Removing ambiguity around policy settings that allow us to win around climate change adaptation and a zero-carbon economy**

More clarity in these areas will help businesses to make the required investments. As investment activity takes time and cost money, having earlier notice and helpful guidance will help industries to ensure that they are prepared for and able to respond to any changes.

## **Enabling onshore manufacturing that supports our future economic prosperity**

COVID-19 caused major disruptions that raised discussion around whether countries should be more self-reliant. We suggest giving consideration to what manufacturing activities would be of great benefit to have done domestically.

## **More government involvement in setting standards**

Greater and more direct involvement by government in setting standards is recommended where standards represent and/or contribute to delivering the public interest in resilience. Government already does this to some extent. For example, in complying with international requirements for the pre-purchase and stockpiling of the country's liquid transport fuels.

Another example of where government acts at a greater level to ensure resilience is where it specifies standards affecting earthquake resilience and recovery, along with ensuring those standards are adhered to at the border.

## **Greater inter-agency discussion**

From our members' perspective, medium-term resilience in New Zealand's various packaging supply chains could be usefully enhanced by greater inter-agency discussion, along with agreement around the public interest in packaging.

## **Help to enable investment**

There are statutory obligations to demonstrate 'extended producer responsibility' through increased recovery and recycling require investment. This investment is likely to be of a medium- and long-term nature and is unlikely to happen before there is more certainty with respect to the Government's objectives around waste, recycling, and emissions (along with its wider environmental objectives). This could be problematic for supply chains if industry is not able to comply with its requirements.

It is unrealistic to expect a commercially exposed manufacturer to invest in collection and recycling infrastructure if that investment is at risk from subsidised competition. This competition could be, for example, as a result of the decisions of the Government in allocating the proceeds of the New Zealand waste levy (\$300 million per year in 2024), or the decisions of the Australian Government and other influential trading partners.

To the extent that the circular, zero waste, low emissions economy required in various New Zealand statutes equates to related customer and consumer expectations, it can be assumed that it is being delivered now.

To the extent that the public interest in such outcomes is something other than consumer and customer demand needs to be defined and specified by Government in a way in which it can be invested in.

#### **Question 4: What should the Productivity Commission study to learn more about the economic resilience of industries and communities?**

Packaging New Zealand recommend the Productivity Commission give specific consideration to the following:

- The function and purpose of the (now historic) Packaging Accord
- Trade Act (Countervailing and Antidumping Duties) protections from unfair competition

#### **The Productivity Commission needs to be articulate around trade-offs during transition and opportunity costs of short-term policy settings**

Information, clarity, and guidance on regulatory changes is extremely beneficial to us and will help us to coordinate our businesses ahead of time.

The Commission should also ensure it is informed on the costs of any short-term policy settings that it helps to develop. Thinking and research should be holistic, with proper engagement done to know how industries might be affected.

#### **The function and purpose of the (now historic) Packaging Accord**

The function and purpose of the (now historic) Packaging Accord. We believe that the Accord is still relevant, as it helps to ensure a broader range of perspectives in determining the public interest of New Zealand, along with its contribution to that public interest through packaging supply chain resilience.

#### **Trade Act (Countervailing and Antidumping Duties) protections from unfair competition**

Means by which the Trade Act (Countervailing and Antidumping Duties) protections from unfair competition afforded to those investing in New Zealand manufacturing can be given effect to. The Trade Act was recently reviewed and, whether correct or not, is applied on the basis that the public interest in trade is restricted to ensuring trade is unconstrained. References to the public interest included in the recently agreed New Zealand-UK Free Trade Agreement could be instructive in this regard.