

Productivity Commission Issues Paper: QuestionsNZ Shipping Federation Submission
21 August 2011

Productivity is a crude measure especially when calculated at the national level. While international organisations such as the OECD periodically produce tables of international productivity, these tend not to tell us very much, at least in the sense that we can identify some common set of characteristics that 'productive' countries share. With respect to these more productive countries, some are big, some are small, some have low tax regimes, some high, some have relatively high levels of regulation, others low, etc. One thing that all of the most productive countries share, however, is that within those economies there are some highly productive industries and others far less productive. Variability of performance across industries and within industries is common.

While it is certainly true that at the national level, productivity measures are crude, it is probably also true that as we move from the 'national' perspective to 'industry' and then to the individual 'firm' level, measures of productivity become more meaningful.

This particular exercise in addressing productivity issues associated with '*International Freight Services*' is particularly challenging because it spans a number of sectors and industries: international shipping, coastal shipping, road, rail and air transport, ports, freight forwarding, logistics, and all of the infrastructure that supports those industries.

Literature tells us that productivity is driven by a combination of factors: History, geography, culture, education and training, access to, and application of technology, regulatory environment, management capability, innovative productive processes etc. There is no one single factor or indeed any common combination of factors that improve productivity. The particular combination of factors and their respective emphasis will vary from industry to industry and from firm to firm.

In the final analysis the most important drivers of productivity are at the 'firm' level.

Q1

Are there important issues that may be overlooked as a result of adopting an economic efficiency perspective for this enquiry.

The focus of the enquiry is mainly at the 'macro' level; regulatory environment, ownership issues, infrastructure. While these are certainly important contributors to productivity, the enquiry would be enhanced by consideration of factors that would improve productivity at the 'firm' level. By way of example competition *within* individual port operations could be as effective as competition *between* ports. Individual shipping companies, for example should be able to choose which stevedoring company services its ships.

Q2

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

There is the fact that within the ports' charging regimes there is a significant degree of cross-subsidisation. Wherever possible, in a competitive, commercial environment the user of goods and services should be the one paying for those goods and services. This is not the case with respect to ports. By way of example, every ship that docks is required to pay substantial wharfage charges but trucks and trains pay no such charges although they too use port facilities. We see no justification for the situation where one part of the sector subsidises another.

Q14

Does NZ have too many ports for a small country? If so, what barriers are inhabiting rationalisation?

The question is too simplistic. The conditions pertaining to New Zealand are unique. The combination of: remoteness, small population, two main islands, being relatively long and dominated by mountain ranges means for example that transportation by coastal shipping here may be a lot more viable than in many other countries. The number of ports is less important than (a) the function each performs and (b) how well each port performs its mandated role.

Not every port can or should service imports and/or exports on a large scale. That does not mean that the majority of ports that cannot and should not exist. As inferred above, geography is a critical factor in the NZ context and a network of 'regional' ports makes eminent sense given the relatively underdeveloped rail and road links across the most of the country.

We would also point out that we believe that coastal shipping should be seen as part of the solution.

Q16

What changes in governance, regulations or ownership would off the best means to improve port performance for exporters and importers?

There is certainly the implication here that the ports' ownership model (mainly regional councils) inhibits sound strategic and operational decisions. For sure, the present governance regime with respect to ports means that ports' Boards will, by definition place the interests of their 'region' ahead of the national interest and perhaps even the direct business interests of the individual port itself.

The obvious alternative ownership models for ports would be (a) complete privatisation applied to all ports, (b) nationalisation of all ports or (c) somewhere in between.

Privatisation would certainly benefit a number of the bigger ports where the focus would lie firmly and exclusively on commercial considerations. Notwithstanding the obvious benefits of privatisation to some ports, it could prove to be unattractive in some cases and a number of ports would clearly struggle in a highly competitive and deregulated environment.

The operational efficiency of ports is probably more important than the form of ownership .

Q21

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

The first question: we are not sure but probably it is connected to jurisdictional issues.

The answer to the second question is no.

Q23

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

If the focus of the regulatory process was confined to matters of competition, yes. If not, the Commission would struggle to deal with technical areas outside its mandated core business.

Q24

To what extent do the current regulatory and competition regimes that affect international sea freight transport services work well or not for NZ exporters and importers?

There is little doubt that the present regulatory environment favours international operators over domestic shipping companies. International operators are exempt from the Emissions Trading Scheme, ACC levies and aspects of labour laws.

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?

Enabling coastal shipping to compete on an equal playing field with international shipping and also in NZ transport policy. In other words ensuring the 'playing field' is as level as possible. Currently it is not.

Ensuring efficiency in agencies such as MNZ. Regulations that pertain to NZ coastal vessels as allowed for in International regulations.

Q57

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

There may be merit in looking at the ports system as two separate systems: (1) full, stand-alone ports which engage in reasonably intensive trade in both exports and imports and (2) a network of regional ports with a coastal transshipment focus and perhaps some niche import and/or export trade.

There would likely to be just 3 or 4 ports in category (1) above.

With respect to ownership (see Q14 above) full privatisation would likely to be the best model for category (1) ports. Various alternative ownership arrangements could be considered for category (2) ports.

Q58

What is the scope for greater consolidation of ports, greater vertical integration of ports with domestic 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?

Clarification of the respective roles of individual ports would go a long way towards facilitating this. Ownership issues associated with ports would need to be addressed and clarification re on-going 'hub and spoke' arrangements would be critical.

Q59

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

We don't identify any systemic barriers. The only barriers to the completion of successful negotiations lie in the skills and attitudes of those participating in the negotiations.

Q60

Is there 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?

The answer to this question will vary according to who you ask. On the one hand a common complaint heard from ports is that the shipping lines dictate conditions. On the other hand shipping lines do complain that the ports commonly adopt a 'take it or leave' approach to negotiations.

Q64

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

The fact that far more full containers leave the country than enter it is a fact of life. This imbalance is compounded by the fact that a significant proportion of export containers are reefers while very few full reefer containers enter the country.

Q65

What are the potential benefits and risks for NZ from a move to hub-and-spoke configurations for international shipping? Are there actions NZ can take to increase the likelihood of benefits or to manage the risks?

We shall assume the hub(or hubs) would be located in NZ.

Potential benefits:

- The 'hub' ports would gain critical mass.
- It would provide some medium to long term certainty with respect to the configuration of our port system This would provide government with more certainty when planning major infrastructure investments such as roads.
- The 'spoke' ports would have some surety with respect to their roles. This would allow them to plan their capital expenditure efficiently and thereby avoid wasteful investment in infrastructure that may under-utilised or indeed never be used.
- The stability inherent in the model should allow the ports and shipping lines to negotiate more long-term and thereby more stable arrangements.

Manage the risks?

- The main risk lies in the uncertainty surrounding the future configuration of our port system. The best way to manage that risk would be to remove the uncertainty.

Q69

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

This would be problematic in a competitive environment. However, in a mixed model where the 'spoke'

ports would be in a far less competitive environment than say the 'hub' ports, sharing information for mutual benefit could be achievable. The ownership model applied to these ports could be crucial.

Q70

Do the restrictive trade practices provisions of the Commerce Act deter the efficient sharing of operational data?

See above.

Q71

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

Only for entities it owns.

Q73

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

Wherever possible, reduce the uncertainty with respect to the operating and regulatory environment. Leadership from government could be an important factor in this regard.

Q74

What factors would favour the choice of decentralised vs. centralised strategic planning?

The ownership model pertaining to ports would be a key factor. If all ports, for example were owned by a single entity, strategic planning across the port sector would be possible.

Q77

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

We would be willing to in some circumstances but the requests would need to be very specific.

Q79

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

- At the macro level, look to removing regulatory impediments to achieving a level playing field.
- How the government can take a leadership role in providing some degree of certainty.
- At the micro level focus on ways in which individual firms can improve their performance.