SUBMISSION FROM THE NEW ZEALAND PORT COMPANY CEO GROUP TO THE MINISTRY OF TRANSPORT ON THE NEW ZEALAND FREIGHT AND SUPPLY CHAIN ISSUES PAPER

This submission is from the New Zealand Port Company CEO Group (the Group). The Group comprises the CEOs of Northport, Ports of Auckland, Port of Tauranga, Eastland Port, Napier Port, Port Taranaki, CentrePort, Port Marlborough, Port Nelson, Lyttleton Port, PrimePort Timaru, Port Otago and Southport.

2 Ports are essential infrastructure. New Zealand ports provide vital public benefits in both their commercial and social role. Ports are intergenerational community assets. Efficient port function is integral to the movement of freight both in terms of imports and exports and the movement of goods around New Zealand in the form of Coastal Shipping. This movement of freight underpins the New Zealand economy. Ports facilitate tourism through the cruise industry.

3 Ports play a central role in the New Zealand supply chain. As the issues paper reminds us several times, in 2020, 99% of New Zealand’s exports and imports (by volume) pass through these ports. Coastal (domestic) shipping is also essential and is an important growth area identified by the Government under the Emissions Reduction Plan. With our imports and exports set to grow, and with New Zealand determined to respond to the challenges posed by climate change, the port sector is destined to become even more important for the economy. The potential for ports to play a vital role in support of new technology to respond to climate change, such as off-shore wind farms and movement of people via sea gliders, are examples of this.

4 New Zealand is fortunate in having a network of ports around the country. One of the strengths of the system has been its resilience. Recent large earthquakes and commercial disruptions have shown how quickly the system can readjust, adapt and re-set.

5 The Group is grateful for the opportunity to comment on this paper (the paper) and for the continuing interaction with Ministers and officials on matters relating to the supply chain. We note that our next meeting in Wellington on 8 June will afford a further opportunity for discussion on some of the issues raised in this paper.

6 COVID associated disruptions domestically and internationally have demonstrated the importance of the freight supply chain to all New Zealanders. It is essential that it be allowed to operate efficiently. Prior to COVID the system was coping but was under enormous pressure. COVID has highlighted to all the vulnerabilities of the system. Post-COVID pressure on the system will grow in line with demand which is expected to grow substantially over the next 30 Years. It is important that Government policy settings impacting the sector are fit for purpose. This issues paper is therefore timely.

7 We note also that one of the major issues impacting the freight and supply chain is the operation of the current Resource Management Act (RMA). What replaces this Act is of great importance to the Group and the Group is actively involved in the separate process being coordinated by Minister Parker and officials from the Ministry for Environment. We note that the Ministry of Transport and the New Zealand Infrastructure Commission are also
participants in this process. It is critical for the future of the economy and the freight and supply chain that we have fit for purpose legislation to replace a RMA that is unfortunately no longer fit for purpose.

8  Hopefully this will be picked up in the replacement of the RMA but it is worth noting that The Public Works Act is no longer fit for purpose either. In particular it has failed to protect future routes (eg rail widening, road widening, grade separation etc).

9  Not only does the current law (and policy statements associated with it) impact the development of the supply chain but it is allowing threats to the efficient operation of the existing system. Some examples of this would include: Council Unitary / District Plans do little to protect routes from intensification / reverse sensitivity issues / conversion to cycle lanes / congestion etc, and Council Unitary / District Plans often prevent 24/7 operation (eg bans on night time deliveries or onerous noise controls).

10 The Group is generally supportive of the description of the sector contained in the paper and the aspirations it sets for the freight and supply chain sector. But aside from the need to link this work with the RMA/Public Works Act reforms noted above, we do have some cautionary comments about the role of Government.

11 Government is a major player in the sector. Central Government is a major funder decision maker in the road and rail sectors and has recently acted to stimulate coastal shipping activity. Government owns a majority share in Air New Zealand. Local Government is involved to varying degrees in the ownership of our ports and airports. The extent of this involvement and responsibility for some of the issues confronting the sector are not really addressed in this paper. They should be.

12 The most obvious example is the comment made in the paper about the rate of return being received for investments in the sector. In the ports context there is a suggestion that current competitive settings are somehow responsible for a sometimes low rate of return on these investments. Is the issue competition or is it the ownership model and parochialism? Is local government really appropriate as the owner of so much of the sector. Does local government as a shareholder insist on the same rates of return as private sector shareholder? And how often in recent years has local government, often the majority shareholder, contributed to new investment in the sector? The group has no unified position or answer to these questions, but thinks them worthy of consideration.

13 The paper does not do this, but Government has in recent years, and continues to try to influence the shape of the new Zealand port network. The Upper North Island study essentially run to promote a particular political agenda was perhaps the most egregious example of this. But a study commissioned last year by the New Zealand Transport Agency on coastal shipping strayed into this space as has the recently announced funding for yet another study on the potential for the port of Auckland to be moved to the Manukau harbour. The Group suggests caution in this space. The location of ports and their future usage is better determined by the market rather than by Government regulation. Last time Government tried this, it got things very wrong.
Judging by the decisions taken over the past two years by shipping lines to order new ships it seems likely that that trend towards increased ship size will continue. This could well increase pressure for international ship calls to New Zealand ports and the development of more of a hub and spoke system. If this happens this will be gradual. Government should not be expecting ports to lose business from this as coastal shipping is likely to benefit substantially from such a trend. Recent investment by major players in coastal shipping is evidence of this. Likewise one should not expect the number of ports to reduce. Indeed, recent decisions around coastal shipping could see a number of ports that have essentially ceased freight operations resuming this function.

Competition is critical to the sector. It encourages higher quality service by participants and acts to benefit consumers by putting pressure on prices. This does not seem to be recognised in this paper. Competition between ports is important. Likewise competition between road, rail, coastal shipping and international shipping lines is also essential.

The paper rightly points to an uncertain international future. Unfortunately no one really knows what international trade policy, international politics and the response to current and future human and animal health emergencies will bring. But it is hard to dispute that a return to the types of prices seen in the sector prior to the arrival of COVID looks many years away. While substantial new capacity has been ordered and will begin joining domestic and international fleets in 2023 it is hard to see these doing much other than helping reduce future price increases. Oil prices and environmental regulation rightly requiring improvements in emission levels (through scrubbing) or through the use of higher quality fuels are a factor. Climate change policies will be impacting also before too long.

As the paper notes, we are at an interesting time in terms of technology. There is a very strong incentive for the sector to de-carbonise. For smaller vessels electricity will come into play. Hydrogen and new more climate friendly fuels will also grow in importance. The international and domestic vessel fleet in 2050 will look very different to that of 2022. Emissions from the sector will be substantially reduced. The price impacts of this transition are very hard to predict at this point.

As the paper also notes, it will be important that New Zealand continue to make progress on decarbonising how we move goods to market. Sea freight is currently the most carbon efficient way of trading internationally. We expect that the technological trends referred to above will maintain this state and help reduce New Zealand’s overall emissions. It is therefore important that the domestic freight system move in a similar direction. Road, rail and coastal shipping all have the potential to adopt new technologies and deliver more sustainable outcomes.

One interesting trend that has developed during the COVID era has been the growth of a “point to point” refrigerated or frozen bulk shipping services. This growth seems set to continue into 2023. Questions can be asked about how sustainable this growth in demand is going to be beyond then but if it continues it has implications for port operation (loading/offloading and on port storage), and domestic freight operations. It is a trend that Government should continue to monitor.
We cannot end this paper without reference to immigration policy. The paper correctly notes the impact labour and skills shortages have had on the freight and supply chain. 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.

Thank you again for giving the Group the opportunity to comment on this issues paper. We look forward to working closely with Government on the development of policy in this area.

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