

Submission

By



to the

Ministry of Transport

on

**Sea Change – Transforming Coastal Shipping in
New Zealand**

December 2007

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SEA CHANGE – TRANSFORMING COASTAL SHIPPING IN NEW ZEALAND

SUBMISSION BY BUSINESS NEW ZEALAND¹

1.0 INTRODUCTION

- 1.1 Business NZ welcomes the opportunity to comment on “Sea Change – Transforming Coastal Shipping in New Zealand” (the Draft Strategy). Given the significance of coastal shipping to business and households alike, it is important that the draft strategy is subject to a thorough consultation process.
- 1.2 An efficient transport system is fundamental to New Zealand’s future with transport infrastructure (road, rail and coastal shipping) an essential component of New Zealand’s international competitiveness.
- 1.3 Much of the content of the Draft Strategy is non-controversial in that it covers factual information about New Zealand coastal shipping services. The action plan, outlined on p.25, covers four important specific and immediate steps the government intends taking to help transform coastal shipping in New Zealand. These being:
- Providing a visible focal point;
 - Improved access to funding;
 - Information gathering; and
 - Workforce initiatives.
- 1.4 While it could be argued that the proposals are hardly transformational; they are generally positive steps which Business NZ broadly endorses. In this respect, Business NZ is pleased that the focus is looking forward and not going back to relitigate issues surrounding cabotage or explicit subsidy rentseeking and the like. Notwithstanding the above, Business NZ notes that the draft strategy does state that section 198 of the Maritime Transport Act 1994 (which enables overseas ships to carry domestic cargo) might need to be ‘clarified’. Business NZ would most strongly oppose any moves to water down the ability of overseas ships to carry domestic cargo.
- 1.5 New Zealand must ensure its shipping services are internationally competitive and this means taking advantage of both domestic and international shipping operators where appropriate to meet the demands of both domestic and international markets. In this respect, Business NZ is very supportive of ensuring transport services in New Zealand are used efficiently as outlined on p.23: *“Fundamental to the aspiration is the concept of co-modality: the efficient use of different modes of transport modes on their own, or in combination, to achieve an optimal and sustainable use of resources.”*

¹ Background information on Business New Zealand is attached as Appendix 1.

- 1.6 Business NZ strongly endorses the concept of transport solutions reflecting what is optimal from New Zealand's perspective. However, having an aspiration for coastal shipping to carry at least 30 per cent of all *inter-regional* domestic freight (double the current rate) is effectively pre-determining outcomes where longer-term coastal trade may increase or decrease based on a number of factors. It is, in effect, stating what an optimal outcome is for coastal shipping without any evidence to back up such a statement. Business NZ strongly opposes an arbitrary target for any transport mode.
- 1.7 Making simple comparisons of countries inter-regional domestic freight movements transported by sea is unlikely to be helpful given that comparisons may be distorted by a number of factors e.g. population base and congestion (in the case of Japan). Furthermore, as the Draft Strategy states: *"Coastal shipping has not taken a growing share of the market in New Zealand because road and rail have offered a faster service, greater convenience, and sometimes a lower total supply chain cost."* This is a crucial point that it is the overall lower supply chain cost which is very important along with the ability to provide customers with fast delivery rather than retaining high stock levels and tying up unnecessary capital equipment and infrastructure.
- 1.8 Coastal shipping is efficient only for certain types of cargo and the assumption in the Draft Strategy that an increased mode share for coastal shipping would be at the expense of road freight is naïve. Freight which is 'contestable' for coastal shipping is generally high volume, low value and not time sensitive. This may mean that the consequence is that rail may well be the unintended causality. At the end of the day, increased coastal shipping volumes may not significantly reduce road traffic at all.
- 1.9 Changes in international shipping (larger ships making fewer port calls) may result in greater development of 'hub and spoke' ports which also needs to be considered. Spoke and Hub means Singapore and Hong Kong (and possibly Shanghai) will likely become major hubs for Asia with the question remaining as to who will become the hub for Australia and NZ. Brisbane has been active in this area and while Auckland may well like to be the hub, it is entirely possible that Brisbane wins out for the region as a whole.
- 1.10 The effect of these trends is that coastal shipping may not necessarily exist in the form it currently does or is envisaged in the draft strategy.
- 1.11 Notwithstanding the above discussion, Business New Zealand offers the following brief comments on the proposed four key steps the government intends taking in respect to coastal shipping.

Providing a visible focal point (p.26)

- 1.12 The Draft Strategy proposes the establishment of a Maritime Liaison Unit (MLU). The MLU would have a number of objectives but would essentially provide a visible focal point for communication and the sharing of information between government and industry in particular.
- 1.13 While Business NZ does not have a strong view on the value of such a unit, it does raise questions about whether this would be a good use of taxpayers' money assuming (as the Draft Strategy does) that such funding would be via government.
- 1.14 On the one hand, given the relatively small number of players in the coastal shipping market, it would seem unnecessary to set up a central unit if the various suppliers of services can freely share information (provided it is not considered to relate to price-fixing or some other activity which could be caught under the provisions of the Commerce Act). On the other hand, a central body could well be useful to coordinate information flows.
- 1.15 The obvious danger, over time, with such taxpayer funded bodies, is the tendency for the beneficiaries of such information to seek even more complex information or adoption of regulations to justify the unit's own existence. The potential for the unit to become a forum for centralised lobbying, funded by taxpayers, is highly likely.
- 1.16 Business NZ considers that as a starting point, the justification for such a unit does need to be determined, and weighted up against other alternatives (including a "do nothing approach") or voluntary information sharing by the various players in this market.
- 1.17 Notwithstanding the above, given the nature of the industry (i.e. small number of players all in slightly different segments of the market), voluntary information sharing may not necessarily be easy. Moreover, there are issues surrounding the sensitivity of information and what it may be used for. On the one hand, information is lacking in the sector. For example, the Shipping Review had major difficulty in determining the market share between Coastal Shipping, International Shipping, Rail and Road, although reasonable estimates were made. On the other hand, if information was used to restrict competition in the sector between operators then this would not be helpful.

Improved access to funding (p.28)

- 1.18 It is noted that around \$2 million per annum is available under the Land Transport Act for proposals to reduce demand for road transport by transferring freight to rail or sea. It is also noted that for various reasons, less than half of the fund has been accessed for coastal shipping.
- 1.19 While Business NZ recognises that the funding available for coastal shipping from the National Land Transport Fund is relatively small, we would be concerned if increased funding from such sources resulted in less money for important roading projects.
- 1.20 Moves in New Zealand in respect to Land Transport have centred on ensuring that funds generated through road users (e.g. fuel excise duty, road user charges and motor vehicle licensing fees) are progressively retained for Land Transport Initiatives. The underlying theme is that it is essential to ensure that competitive neutrality between transport modes is retained.
- 1.21 Given the potential for changes in international shipping as mentioned earlier (e.g. potential for reduced port calls and increased trend towards 'hub-and-spoke' networks which will likely result in New Zealand having to move more freight domestically), the Government should be wary of underwriting (via the taxpayer) of significant coastal shipping infrastructure, given the potential risks involved.

Information gathering (p.30)

- 1.22 Business NZ is strongly supportive of the need to ensure that adequate information is gathered in order to improve policy decision-making. Without well researched data and information, the risk is that sub-standard policies will be developed.
- 1.23 The issue of debate is the amount and type of information that should be gathered and in what form. The danger is that information collection, by itself, will simply add to costs facing Government (collecting and analysing the data) and the ports and shipping industry (in terms of compliance costs). On the other hand, in order to understand more fully the sector and meet the "target of 30%" (if it is retained), it is crucial that additional transportation statistics are available.

- 1.24 Business NZ notes that while information is available from the various players, this is often not in a form which is readily comparable because of differences in processes and arrangements by different companies. While standardised data might be desirable from an administrative and comparative point of view, this does raise compliance and potential competition issues in respect to the various companies involved. Requiring standardised data is not without cost. This requires extensive consultation with the various players involved to ensure that information collected is both useful and does not unnecessarily interfere with current information collection systems applied by companies.
- 1.25 The danger is, as mentioned earlier, if the Maritime Liaison Unit is funded via taxpayers, then the incentives to “gold-plate” services will be increased, with the costs falling on the taxpayer, or ultimately business and consumers as higher charges will be passed on, which ironically could make coastal shipping less competitive with other transport modes.

Workforce initiatives (32)

- 1.26 Business NZ notes that the average age of the existing workforce is relatively high (with over one-third over 60 years of age). The industry, in general, is concerned about the need to attract younger skilled workers into the industry. The proposals outlined in the Draft Strategy to improve recruitment prospects seem sensible in this respect. Much greater awareness of opportunities available would likely encourage younger people into the industry.

APPENDIX 1

BACKGROUND INFORMATION ON BUSINESS NEW ZEALAND

Business New Zealand is New Zealand's largest business advocacy organisation.

Through its four founding member organisations – EMA Northern, EMA Central, Canterbury Employers' Chamber of Commerce and the Otago-Southland Employers' Association – and 67 affiliated trade and industry associations, Business NZ represents the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy on behalf of enterprise, Business NZ contributes to Governmental and tripartite working parties and international bodies including the International Labour Organisation, the International Organisation of Employers and the Business and Industry Advisory Council to the Organisation for Economic Cooperation and Development.