New Zealand Council of Cargo Owners

The association for NZ's largest shippers

Response to New Zealand Freight and Supply Chain Issues Paper (Ministry of Transport April 2022)

The New Zealand Council of Cargo Owners (NZCCO) represents the shipping supply chain interests of many of the country's largest exporters and importers. Formerly known as the NZ Shippers' Council, NZCCO was formed in 1983 to be the national body representing large volume cargo owners.
The current membership includes companies and organisations with major interest in industries such as horticulture, dairy, meat, steel, forestry, FMCG, and pulp and paper; collectively accounting for in excess of 70% of New Zealand's containerised exports and a significant amount of bulk export, imports and domestic volume.
NZCCO affiliates include ports, freight forwarders, shipping lines and road transport and rail organisations.
Members share a common goal of efficient, reliable, cost-effective movement of cargo; domestically and internationally.

Overall the New Zealand freight and supply chain issues paper does a good job of setting out the challenges confronting the supply chain. Much of what is proposed has the full support of the NZCCO, in particular on-going collaboration between Government and stakeholders.

The following points underpin our responses to specific questions raised in the issues paper:

- Any changes to the supply chain must benefit the movement of goods in a way that enhances New Zealand's competitiveness. We are already challenged by geographical distance from our international trading markets. The addition of further costs arising from the supply chain undermines our competitiveness and risks pricing NZ goods out of the market.

- Cargo will always flow the most efficient way. Currently 93% of freight travels on the roads; 6% on rail; and about 1% on coastal shipping. We are supportive of more freight being moved on other modes of transport, but the reality is that each mode has its own efficiencies and inefficiencies. Development of a sustainable supply chain strategy requires a thorough review of each transport mode, with an unbiased evaluation of their relative strengths and weaknesses, freight types most suited to each mode (eg FMCG, perishables, consumables) and examination of the full cost to move goods end to end. This would include, for example, the cost associated with inter-modal movements, impacts on timeliness of product to market, emissions profile.

- Supply chain disruption is not a new phenomenon. Although the pandemic has heightened awareness of the fragility of our supply chain, here at the far end of the global shipping network significant disruption to the supply chain has challenged New Zealand cargo owners all too frequently in the past. For example, in the period immediately prior to the impacts of COVID on the global supply chain, liner schedule reliability was increasingly impacted by employment disputes at off-shore ports as well as significant weather events. Events such as the Canterbury and Kaikoura earthquakes underlined the vulnerabilities within our domestic freight supply chain. There have been many learnings from these experiences; it is important that they are implemented.

Major concerns:
Hub and spoke model

- New Zealand exporters, importers and consumers have benefitted greatly from the current model that ensures intense competition between ports and shipping lines. We are very concerned that a move to a hub and spoke model will diminish competition and lead to cost increases associated with transhipping containers, such as additional handling costs and dwell-time charges.

- Ships are in short supply at present and if there are to be new ships introduced onto coastal shipping routes their owners will need to receive a return on their investment in them.

- Even utilising existing services will increase shipping costs and port handling charges on trans-shipped freight, which will ultimately be passed on to the cargo owners. This comes at a time when international shipping rates have increased enormously. We cannot see a return to pre-COVID rates for international shipping as realistic in the short to medium term.

- Cabotage – careful consideration needs to be given to any proposed changes to the restrictions on the use of international vessels for coastal shipping that may be introduced under a hub & spoke model.

Port Ownership model

- NZCCO agrees there is scope to improve the port system but care must be taken not to undermine the competitiveness between ports, which is an essential component of our supply chain.

- If there is a flaw in our system it is the ownership model, which encourages a regional/local mindset and investment decisions that may never achieve a satisfactory rate of return on the capital invested. The current model also discourages a market-led consolidation of port company operations.

- We note that those ports with a mixed ownership model tend to be more efficient and transparent and have better discipline around capital investment.

- A review of the ownership model would be a good outcome of this process.

Labour market

- We are very concerned about the availability of skilled labour in the sector and fear that the opening of the border without changes to immigration policy will see current shortages exacerbated as New Zealanders leave for work overseas.

- Current immigration policy settings need immediate review. Long term, more investment will be needed from government and industry in training for the skills needed in the sector.

RMA / Planning

- Consents for essential improvements to infrastructure are far too slow in New Zealand. A case in point is the delay in the consenting process for the new Port of Tauranga wharf. NZCCO is following the current process to review the RMA very closely. This should also be a major focus for officials working around the supply chain.

Roading

- Even with substantial modal shift there will still be a need to keep investing in the road network - ensuring roads are fit for purpose and assessed through a supply chain lens.

- There is risk that strategies that are singular in approach may have unintended consequences. For example, the current safety strategy of reducing speed limits on major arterial routes will have a significant impact on the efficiency of the supply chain - reducing the freight task achievable by each truck, and ultimately increasing the number of trucks required to complete the task, thereby increasing emissions, causing more congestion, and potentially increasing the risks on our roads.
- We will support initiatives that take a holistic and balanced approach to achieving their intended goals.

Coastal Shipping

- NZCCO recognises the resilience benefit of coastal shipping. We note that typically increased coastal shipping removes freight from rail rather than road. Investment in coastal shipping infrastructure needs to be carefully calibrated with where the greatest gains for the whole of the supply chain will be made.

- NZCCO remains very wary of any changes to current cabotage settings.

Responses to specific consultation questions

Q1. Do you agree with the outlined description of the freight and supply chain system?	The outlined description is reasonably accurate at a high level. A more detailed description should include: – seasonality of primary production / peak periods and the impacts of this on the supply chain – impact and implications of the imbalance in the supply chain as a result of the dominance of POAL for imports and PoT for exports – significance of consistency/reliability of the shipping services, criticality of the matching of supply and demand i.e. capacity has to meet demand, we cannot achieve resilience without the supply chain being underpinned by consistency.
Q2. Do you have any views on the outlined role of government in the freight and supply chain system?	NZCCO is cautious about government intervention in the supply chain. The private sector are the decision makers and investors for much of the supply chain; what we mostly need is sufficient certainty to plan with confidence. In our view government needs to focus on those specific areas that facilitate this. To be sustainable the strategy must be apolitical/reflect cross-party consensus in order to create certainty and momentum. Specific areas where Government <u>can</u> assist the efficient operation of the supply chain: – Labour supply/immigration settings: the current workforce and skills shortages are of key concern. – RMA reform, especially to secure and protect the freight corridors /enable key infrastructure to be delivered in a timely manner. – Digitalisation of border processes: Protracted documentation processes directly impact timely access to market with flow on costs to cargo owners.
Q3. Do you agree with the outlined strategic context and key opportunities and challenges? **Q4. Are there any trends missing ?** **Q5. Which of the opportunities and challenges do you believe will be most important in shaping the future of the**	NZCCO generally agrees with the outlined strategic context . We note the following trends / developments as presenting key opportunities and challenges: Impact across the supply chain of: – moving from Just in Time to Just in Case e.g. the implications for infrastructure of businesses holding increased inventory – bigger ships e.g. the implications across the supply chain of larger volumes occurring in concentrated discharges – modal shift e.g. consideration of the infrastructure required to move from a predominantly road freight network to one that accommodates an increased proportion of rail and

freight and supply chain system in NZ?	coastal shipping, including interchange hubs at both port and regional locations – use of digital technologies across the supply chain – changing climate on primary production and therefore supply chains e.g. implications of harvesting over longer periods Decarbonisation of shipping will have major impact but will be driven by International shipping. You have recognised the risk of being early adopters of technology, vehicles, or fuel types that may lead to stranded assets should that technology fall from favour. Taking New Zealand's profile into account, the focus should be on future proofing decisions, selecting more long term sustainable options and positioning ourselves to be part of the early majority rather than early adaptors, so we can maximise the benefits while reducing the risk.
Q6. Do you agree with the outlined vulnerabilities of the current system?	NZCCO substantially agrees with the outlined vulnerabilities, noting that our distance from international markets underlines the need for efficiencies in our freight supply chain to retain competitiveness. NZ's reliance on international shipping lines, the risk of lines withdrawing from smaller ports and the risk of global shifts in block exemptions undermining Vessel Sharing Agreements (VSA's) should also noted.
Q7. Is there any key information missing in understanding the vulnerabilities of the current system	Key data useful to the development of the coastal shipping strategy is the actual volume of coastal cargo that is currently moving on international vessels.
Q8. Do you agree with the proposed outcomes? / Q9. Are there more outcomes the strategy should focus on.	NZCCO agrees with the proposed outcomes but would argue for more explicit recognition of supply chain efficiency as a critical strategic outcome. It would be useful to define what supply chain resilience in NZ looks like and include meaningful resilience metrics.
Q11. Which of these areas of focus would be most important to prioritise?	For the reasons described above NZCCO sees greatest benefit in prioritising focus on Productivity and Innovation – which should be underpinned by driving efficiencies across the supply chain.

NZCCO Full Members