Border management

The time taken to complete export and import requirements compares well with many other countries but is behind international best practice. Moves to common platforms and systems by the New Zealand Customs Service and the Ministry of Agriculture and Forestry will reduce duplication by allowing exporters and importers to submit information once to multiple agencies.

The second phase of the Joint Border Management System, which will integrate functions such as scheduling audits and tracking compliance records, is several years away. In the meantime, inter-agency coordination should be promoted by increasing the role and visibility of the Border Sector Governance Group.

The Resource Management Act

International freight services depend on large-scale infrastructure investments, and the continued development of that infrastructure. Some submitters raised concerns about obstacles posed to such development by the operation of the RMA. A common comment is that it would be very difficult to re-create existing infrastructure under current planning requirements.

RMA processes could be made more accommodating of freight infrastructure projects by amending the Act to:

- ensure that all benefits, as well as the costs including adverse environmental effects, of new investments are considered; or
- include specific reference to importance of regionally and nationally significant transport infrastructure.

In addition, the Minister for the Environment should develop a National Policy Statement to guide local authorities and recognise the importance of the national transport network when making planning decisions.

Strategic planning

Some inquiry participants saw a need for more strategic planning or government leadership of the sector, especially in decision-making around port and airport development and associated investments in road and rail infrastructure. However, the Government's information is limited and it can distort commercial incentives if it takes a directive approach.

The Commission instead favours mechanisms for sharing reliable information to inform individual decision-making, rather than a government-led master plan. The recently developed Upper North Island Freight Strategy is an example. Improvements to the governance framework, particularly with respect to ports, should also improve coordination.

What next?

Submissions on the draft report are invited by 27 February 2012, with the final report due with Government by 1 April 2012. The full report is available at www.productivity.govt.nz

The New Zealand Productivity Commission

The Commission – an independent Crown Entity – completes in-depth inquiry reports on topics selected by the Government, carries out productivity-related research, and promotes understanding of productivity issues.

Cut to the chase

NEW ZEALAND PRODUCTIVITY COMMISSION
Te Kōmihana Whai Hua o Aotearoa

International freight transport services inquiry

Draft report – January 2012

The inquiry

The Productivity Commission has been asked to find ways to improve the performance of international freight transport services. An efficient international freight transport system is essential for New Zealand to compete effectively in the global economy. Cut to the Chase summarises the Commission's findings and recommendations from its draft report. The draft report follows the release of an issues paper (July 2011); consideration of over 50 submissions; a large number of meetings with interested parties; and the Commission's own research and analysis. Submissions on the draft report are invited by 27 February 2012.

The importance of an efficient transport system

New Zealand's international freight costs as a percentage of product value fell from 1989 to 2009. However, they are still higher than in Australia and are significant, representing about $5 billion or 2.7% of GDP in 2010. The sector experienced a productivity surge from the mid-1980s to the mid-1990s due to innovation and sustained structural reform. This productivity surge has since dissipated. This underlines the importance of removing any impediments to competition, investment or uptake of innovation.

Governance

Corporate governance is about ensuring organisations make the best possible decisions. The governance arrangements for publicly owned companies – that dominate parts of the transport sector – need to be particularly strong because such companies are, in effect, spending the public's money and face fewer performance disciplines than comparable privately-owned firms.

The Commission has found weaknesses in the governance framework for ports and council-controlled airports. The statutory purpose of those companies is not sufficiently clear (risking impaired performance from multiple 'fuzzy' objectives); there may be conflicting interests where councillors and council staff act as directors; and there are weak incentives for monitoring performance. To address these weaknesses:

- the statutory purpose statement for ports and airports should be brought into line with the statutory objective for state-owned enterprises, ie, to be successful businesses as profitable and efficient as comparable businesses that are privately owned;
- councillors and council staff should be precluded from being directors of port and airport companies, where this has not already been done; and
- a collective monitoring function should be established to create independent comparative information for port owners to consider (similar to the role played by "COMU" for monitoring State-Owned Enterprises). This information should further strengthen ownership disciplines and port performance.

Councils should also carefully consider what their ownership objectives and how those objectives are best pursued. The type and level of ownership, and the incentives created, are central to the performance of any organisation. Councils are likely to be able to achieve non-commercial objectives with lower levels of ownership or through reshaping the scope of the companies concerned. The introduction of outside capital may also offer wider and longer term benefits for ratepayers, such as better returns, new technology or improved capability.

Seaports

Most of New Zealand's international trade is conducted by sea. Even small improvements in port efficiency can deliver meaningful gains across the economy.

Port handling charges and port container productivity compare favourably with Australia. But there is considerable variation in port performance.

Our assessment of port profitability also suggests that all but one of the ports assessed are failing to earn an appropriate commercial return. This can be indicative of a number of things, including inflated costs; that ports are subsidising other regional development goals being pursued by councils; that there is over or under investment creating potential future problems; or that some ports are not large enough to operate efficiently given large fixed costs. It also may mean that ratepayers – the ultimate owners of all New Zealand ports (at least by majority ownership) – are not getting a fair deal and, in practice, paying more rates than may be necessary.

The work conducted in ports has been transformed over recent decades. The Commission received numerous submissions that work practices and employee relations have not kept pace with this change. The risk of labour-related disputes, in itself, can introduce significant costs by blocking, discouraging or delaying productivity-enhancing investments or other operational changes.

Highly productive workplaces have effective employer-employee relationships based on trust, shared values and outcomes. This ideal has proved elusive in some ports, with a long and complicated history. It is time to move on and for the leaders of ports and unions to take responsibility for doing so. Among the Commission's recommendations to expedite progress are:

- reviewing whether existing legislative provisions are sufficient to effectively regulate impediments to competition arising from union activity;
- strengthening the governance framework applying to port companies (discussed above), to ensure decisions related to employment matters are aligned with the long term interests of ports and their stakeholders; and
- strengthening the governance framework applying to unions in the Incorporated Societies Act 1908 (currently under review by the Law Commission), to ensure that decisions of unions are aligned with the long-term interests of their members and stakeholders.

Airports

After a history of disagreement between airports and airlines over landing charges, stronger information disclosure requirements were introduced in 2008 to encourage appropriate charges and fees. The Commerce Commission will review the effectiveness of the new regime in 2012 or shortly after. This is a wider regulatory issue than this inquiry's focus on freight transport services, which are a very small part of airport revenue.

Shipping lines, airlines and competition law

International shipping and international air services have enjoyed some exemptions from the domestic competition laws of many countries, but this situation has changed in the last decade.

Liner shipping carriers

Agreements between shipping carriers can take two broad forms:

- Conference or ratemaking agreements – under which ocean carriers agree to set rates and manage capacity on specific routes. Although anti-competitive, these have been accepted in New Zealand and most other jurisdictions on the basis that they are essential to the stable and reliable provision of liner services.
- Consortia or non-ratemaking agreements. These are operational in nature and do not contain any price or capacity fixing provisions.

Both types of agreements are automatically exempt from the Commerce Act, meaning that the parties do not have to seek an authorisation from the Commerce Commission – a process which would require them to demonstrate that the public benefits flowing from the arrangement outweigh any public detriments.

Automatic exemption should be abolished for conference agreements but retained for non-ratemaking agreements. Such agreements should also be filed with the Ministry of Transport and placed on a public register. The relevant settings in Australia should also be closely monitored, given the Government's goal of a single economic market.

Airlines

Alliances or code-share agreements between airlines can be exempted from the Commerce Act if they meet certain criteria in Part 9 of the Civil Aviation Act, and are authorised by the Minister of Transport. The Commission favours retaining the current arrangements, but strengthening the requirements for assessing authorisation proposals by analysing and publicly testing costs and benefits, including the impacts on competition.

Other transport modes

Road

Road dominates the domestic freight trade. The Commission heard arguments that there is an element of subsidy under the PAYGO Road User Charges model as users are not charged a rate of return on past road infrastructure investment. The Commission's preliminary view is that these arguments are not correct since capital spending is recovered in the period in which it occurs.

Rail

Rail is subsidised by the Government, which is contributing $750 million to KiwiRail's ten-year Turnaround Plan. So far there has been little public justification for this contribution. A full cost benefit analysis, comparable to the ones undertaken for major road projects, would be a valuable contribution to public debate and to building increased public confidence in rail investment.

Coastal shipping

Coastal trade was opened to foreign ships in 1994. The Commission supports the continuation of foreign competition, so that New Zealanders continue to benefit from the lower transport costs that competition creates.