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Submitted to New Zealand freight and supply chain issues paper | Te rautaki ueā me te rautaki whakawhiwhinga o Aotearoa
Submitted on 2022-05-30 10:10:44

What is your organisation?

Organisation:
New Zealand Shipping Federation

Part 1: Understanding the freight and supply chain system in New Zealand

1 Do you agree with the outlined description of the freight and supply chain system?

Please explain in the box below. :

Yes.

As a small, geographically remote market at the tail end of global supply chains, New Zealand is a low priority for international freight movers and particularly vulnerable to changes or disruptions to global supply chains. Sea transport carries 99% of New Zealand's trade by volume and is essential to the security of the New Zealand supply chain. This is not limited solely to international shipping of imports and exports, but to the movement of goods and people around New Zealand.

Sea transport is the only viable method of bridging between the North and South Islands, with the ferries transporting large volumes of cargo and many thousands of passengers. Without coastal ships, fuel shortages would mean that road and air transport would stop and the construction industry would grind to a halt due to lack of cement.

But sea transport does not operate in isolation from other freight and transport modes. Goods and people need to be moved from our regions and cities to ports, and from ports out into our communities.

2 Do you have any views on the outlined role of government in the freight and supply chain system?

Please leave your comment in the box below::

As the issues paper notes, supply chains are networks of individuals, companies, resources, infrastructure, activities, and technologies which all come together supplying things from those who produce or manufacture something to those use that something.

Multiple supply chains, and complex networks, combine to produce even simple goods. To take one often used example, to make a simple pencil requires a mining industry to extract and manufacture graphite, a wood processing industry, a steel making industry which itself sources raw materials from around the world to make the cap at the top of the pencil which holds the eraser in place – which itself requires a rubber manufacturing industry. All these industries are then reliant on different supply chains to bring all these ingredients together to make a simple pencil – and then the pencil has to get from its place of manufacture into New Zealand and then into our retail stores. Supply chains to make more complex goods are much more complex.

Ultimately the Government has the ability, and obligation, to provide the systems to make sure things flow as well as possible so, in the example above, the pencil is made as efficiently as possible. Systems drive behaviour – systems that reward and systems that punish/disincentivise.

The mechanism at the heart of supply chains is pricing. Pricing allows everyone involved in manufacturing the humble pencil to enter into voluntary arrangements where every party throughout the supply chain benefits, from the woodcutter who fells the tree the pencil is ultimately made from to the end consumer.

Government should focus on how it wishes to influence pricing to achieve its goals. If, for example, government wants to achieve lower emissions, government should look at how transport modes, fuels, etc., are priced relative to higher emissions modes, fuels, etc., and send or create price signals.

The Government has, for example, stated it wishes to see greater use of coastal shipping to help reduce overall transport emissions. Government policies then should look at systems that reward or support use of coastal shipping, or which remove disincentives for using coastal shipping, e.g.:
• Not imposing costs onto coastal shipping that make it less competitive vis-à-vis other modes, e.g., double taxing maritime emissions through the ETS and Marpol when road and rail are not similarly double taxed

• Improving the resilience of domestic supply chains by making domestic operators competitive vis-à-vis international operators who could exit New Zealand at any time
• Incentivising ports to encourage domestic coastal shipping coming to their ports.
Anecdotal feedback from domestic ship operators is that currently ports tend to focus on international and cruise ships at the expense of domestic options.

Coastal shipping is arguably the most resilient means of delivering goods, as it does not rely on infrastructure between its point of origin and destination. As long as ports are functional, coastal shipping can deliver freight and people. The Kaikoura earthquake provides a good example of this. With roads and rail closed by landslides, coastal shipping was the only means of delivering essential goods and supplies into the community.

It is therefore essential that New Zealand has policy, regulatory and legislative systems in place which support the long-term resilience and operation of domestic coastal shipping. This includes reversing decades-long decline in the industry, and increasing the number of domestic ships.

It also means removing government-imposed barriers that undermine the competitiveness of domestic operators vis-à-vis international operators, who could leave New Zealand at a moment's notice in response to global events or in pursuit of higher profit margins elsewhere.

Anecdotally, we are aware of discussions amongst the three largest international shipping lines regards reducing servicing to Australia. The Australian Government Productivity Commission recently held an Inquiry into Australia's Maritime Logistics System. Some of the submissions to that Inquiry may be of interest to the Ministry. For example, see section 2.2 of submission 31 of the Freight and Trade Alliance which refers to shipping lines omitting major Australian ports. This is one consequence of a complex picture of supply chain disruptions in Australia. The Australian Competition and Consumer Commission have also made statements to that effect – see https://www.accc.gov.au/media-release/global-container-trade-disruptions-leave-australian-businesses-vulnerable. New Zealand is even more vulnerable to a reduction in service than Australia, which is both a larger market and geographically closer to major international hub ports.

Another key role for government is ensuring New Zealand has the essential infrastructure needed for an efficient, resilient, lower emissions supply chain. A key aspect of this, from a shipping perspective, is the need for a domestic drydock capable of servicing ships larger than can be accommodated at Devonport of elsewhere.

We note Budget 2022 has committed $1 million to a business case for the proposed drydock facility at Northport. The Shipping Federation strongly supports this project.

Domestic ships need to undergo drydocking at least once every five years, and sometimes more often than that. Currently, ships have to go to Sydney, Singapore, or further afield for access to drydock facilities. Sydney's drydock has no berths available in 2023. Taking a ship to Singapore costs around $1 million, involves burning several million litres of diesel fuel with its associated emissions, and means the ship is out of service for several weeks.

The drydock offers valuable services beyond essential scheduled maintenance, for example, assisting with biofouling. Some ports are becoming reluctant to allow biofouling to occur within port, forcing ships to biofoul at sea (without the biofouling being done, ships cannot operate within ports). This involves underwater divers inspecting and cleaning hulls while the ship's engines are operating to hold it steady in moving seas. This is inherently dangerous.

Provided the business case for the drydock is not clearly negative, government should invest in this nationally important and essential infrastructure.

Part 2: The strategic context for change

3 Do you agree with the outlined strategic context and key opportunities and challenges?

Please explain in the box below. :

In part. A key strategic context is our vulnerability as a small, geographically remote market at the tail end of global supply chains. That vulnerability itself should be recognised not just as context but as a driving reason for change.

Covid-related and impacted parts of the supply chain, and the Russian invasion of Ukraine, highlight New Zealand is a recipient of international developments it has very little influence over. It is imperative that recognising the need to reduce the vulnerability of our supply chain and improving its resilience are at the core of any consideration of what is required.

4 Are there any trends missing that we should consider?

If "yes", please write the trends we are missing in the box below. :

No comment provided.

5 Which of the opportunities and challenges do you believe will be most important in shaping the future of the freight and supply chain system in New Zealand and why?

Please explain in the box below. :

The greatest challenges to the freight and supply chain system in New Zealand are external and beyond our ability to control.

Latest analysis from the World Meteorological Organization states there is a 48% chance global temperatures will be above 1.5 degrees higher than pre-industrial levels by 2026. Without China and India actively working to reduce their emissions, regardless of what all other countries in the world do, if we don't exceed the 1.5 degree target in 2026 we will exceed it very shortly thereafter.

Despite our best efforts to reduce our emissions, New Zealand represents around 0.17% of total global emissions. This means we cannot prevent more extreme weather conditions, sea level rises, etc.

We therefore need to consider how we can improve our freight and supply chain resilience, so that goods continue to flow in a timely, affordable and reliable manner. Building this resilience is the most important challenge for our future supply chain.

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Domestic coastal shipping operates at a significant disadvantage compared to international-flagged ships sailing New Zealand's coastal waters. These international ships typically pay little or no corporate tax anywhere in the world, their employment conditions including minimum pay are substantially less than New Zealand's, they do not pay GST on supplies they purchase within New Zealand, and they avoid paying most if not all carbon-costs, levies or taxes including ETS costs on bunker fuel purchased in New Zealand. The result is international ships can charge lower fees and undercut domestic ships.

This imbalance is recognised by the Maritime Transport Act, which restricts moving domestic coastal freight to domestic ships (unless an exemption is obtained). This legislative approach is common throughout the world. However, despite this MOT itself estimates international ships transport around 75% domestic maritime freight. Monitoring and enforcement of this legislation sits with the Ministry of Transport, which is a policy agency based in Wellington. Responsibility for this part of the Maritime Transport Act should be moved to the industry regulator, Maritime New Zealand, who have the network and people to do a better job.

A fundamental issue is that New Zealand needs to level the playing field between domestic and international ships if we are going to ensure the resilience of our domestic supply chain and that our domestic fleet is sustainable in the longer-term. Australia provides a good example of how this might be done. In Australia:

• Domestic shipping companies pay zero corporate or company tax. They do pay a tax on the distribution of profits.
• Both major political parties have in the last 12 months pledged to end PAYE taxation of domestic maritime workers. This both lowers the cost to employers, allowing them to compete more equally with international ship operators, while increasing the take-home remuneration of maritime workers. If New Zealand does not introduce a similar policy, then it is likely New Zealand's maritime workforce will become further depleted as workers move to Australia to find work.
• Domestic ship operators are exempted from Marpol, which taxes air pollution. Marpol is an international instrument designed to ensure maritime fuel is subjected to some form of carbon emissions charge. International lines largely do not pay Marpol charges, as their home flag countries provide exemptions. So the charge falls on domestic operators in countries like New Zealand, further exacerbating the differential between international and domestic operators. (New Zealand domestic coastal ship operators already pay carbon charges through the ETS, so they effectively are being taxed twice while their international competitors avoid both charges. Moreover, road and rail in New Zealand do not pay an equivalent of Marpol, so coastal shipping, the most emissions-efficient form of freight by volume, pays more than higher emitting modes. This creates an incentive to stay with higher emitting modes rather than transitioning more freight to coastal shipping and is thus counter-productive).
• The incoming Australian Labor Government has also undertaken to establish a state-owned national domestic coastal shipping fleet in recognition of the strategic importance of coastal shipping (much as New Zealand has a state-owned rail operator).

New Zealand also needs domestic shipping capability that can connect New Zealand with Australia and with the Pacific Islands.

No country can contract its way out of vulnerability. You need a domestic capability to pick up goods from your largest nearby markets and to meet your obligations to smaller, more vulnerable neighbours.

In the event of international disruption, contractual obligations to supply countries like New Zealand break down. For example, New Zealand does not hold its minimum-required fuel reserves onshore. Instead, we contract to fuel companies or other countries to provide fuel from offshore in the event of a significant disruption. However, any disruption great enough to endanger the supply of fuel to New Zealand will also likely disrupt the supply of fuel to other countries.

For example, if New Zealand has contracted the supply of fuel from stockpiles in Texas, in the event of major international disruption that fuel is subject to seizure by the United States government to ensure its own domestic supply. Even if the United States government is willing to let that fuel leave the United States, it will be prioritised to more strategically important markets. Also, international shipping lines themselves will be under severe strain and will likely prioritise servicing large, higher priority markets than New Zealand.

Those international ships are also subject to being commandeered by their flag states. China and Hong Kong respectively represent 15% of maritime freight shipping capability by volume. If, for example, in the event of a conflict in the South China Sea, 30% of the global maritime freight fleet will likely be prevented by the Chinese government from sailing to the United States and its Western friends and allies. Other popular flag-ship states like the Marshall Islands have other countries sitting behind them. In the Marshall Islands example, it is the United States. Again, in the event of conflict in the South China Sea, the United States would likely commandeer ships flagged to the Marshall Islands to replace the services currently provided by Chinese and Hong Kong-flagged ships, making ships available to service a small geographically remote market like New Zealand even more difficult to obtain.

If New Zealand does not have the domestic capability to sail from New Zealand to neighbouring markets like Australia, Singapore, Indonesia, etc., in critical times then we are at the mercy of international events regardless of what contracts we might have signed.

In summary, New Zealand should:
• Mirror tax and Marpol coastal shipping policies of Australia to preserve our domestic workforce and to ensure domestic shipping operators can compete against international lines, who could withdraw their services at very short notice
• Actively support the growth of domestic coastal shipping to ensure greater strategic resilience.

Part 3: Current vulnerabilities of the freight and supply chain system

6 Do you agree with the outlined vulnerabilities of the current system?

If not, please explain why:

For ease of reference, this answer replicates answers to questions 3 and 5 above, which we believe are relevant.

Answer to question 3. A key strategic context is our vulnerability as a small, geographically remote market at the tail end of global supply chains. That vulnerability itself should be recognised not just as context but as a driving reason for change.

Covid-related and impacted parts of the supply chain, and the Russian invasion of Ukraine, highlight New Zealand is a recipient of international developments it has very little influence over. It is imperative that recognising the need to reduce the vulnerability of our supply chain and improving its resilience are at the core of any consideration of what is required.

Answer to question 5. The greatest challenges to the freight and supply chain system in New Zealand are external and beyond our ability to control.

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In summary, New Zealand should:
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• Actively support the growth of domestic coastal shipping to ensure greater strategic resilience.

7 Is there any key information missing in understanding the vulnerabilities of the current system?

If 'Yes' please explain here:

The changing and aging workforce.

The maritime sector – like other sectors in the supply chain – has an aging workforce. It is hard to get robust data but the anecdotal evidence is clear. At some stage the aging seafarer population will exit the industry, resulting in a shortfall of younger replacement seafarers. The pipeline to bring any seafarer into a role includes International Maritime Organisation mandated levels of training and seatime.

New Zealand needs to be confident that there are sufficient potential staff at all stages in the employment pipeline, either working now in New Zealand or available to come here with from overseas.

The labour force pipeline is also important for the flow-on effect on strategically important shore-based roles such as shipping managers, harbour masters, pilots, marine surveyors, marine and safety inspectors, maritime regulators and trainers.

Ship operations are a global industry. Internationally there is increasing competition for skilled seafarers with many overseas opportunities for trained and skilled New Zealanders. With recent announcements regards maritime workforce tax changes in Australia, the risk of losing our workforce to other countries has increased.

In addition, shipping faces competition for employees from other industries, where staff work regular hours and go home each night. This creates a risk for New Zealand where we are increasingly reliant on immigration to fill shortages.

Failure to address workforce issues will make New Zealand increasingly reliant on foreign staffing of ships and shore positions. This is will be expensive but more importantly makes a strategic aspect of our economy very vulnerable.

Current training programmes for maritime workers in New Zealand are limited and largely involve desk-bound book learning. Anecdotally, drop out rates of those engaging in these programmes is high, with those studying frustrated by lack on on-ship learning. International qualifications require on-ship time, so the workforce we are training in New Zealand enters the workforce without the requisite certificates to enable them to hit the ground running. An apprenticeship-based model with people learning on the job is needed.

Part 4: Our proposal for developing a freight and supply chain strategy

8 Do you agree with the proposed outcomes? If not, please explain why.

Do you agree with the proposed outcome 1. Low emissions? - 1. Low Emissions - New Zealand's freight and supply chain system is underpinned by a low emissions freight transport system:
Agree

If you have answered "Disagree" or "Strongly disagree" please explain why:

Agree. The market (customers and consumers) is demanding this from the supply chain. However, we need to be careful not to introduce expectations or requirements that:
• are beyond available developing technology to supply
• cannot be supported by the infrastructure we have
• involve unrealistic expectations of infrastructure. Infrastructure requires consenting, financing, construction, etc., so timeframes need to be realistic.

Do you agree with the proposed outcome 2. Resilience? - 2. Resilience - New Zealand's freight and supply chain system is resilient, reliable, and prepared for potential disruptions:
Strongly agree

If you have answered "Disagree" or "Strongly disagree" please explain why:

Strongly agree. From a coastal shipping perspective, New Zealand is far from having a resilient shipping capability prepared for potential disruptions and bold, urgent action is needed to address this.

We need a national policy in regard to New Zealand flagged ships. Even if there is no commitment to having New Zealand flagged ships, we need to ensure that they are not disadvantaged in our waters as compared to similar ships that are operating in our waters and flagged elsewhere. That policy also needs to be clear about the situations in which New Zealand flagged ships would be subject to requisition in times of national or regional emergency, or crisis/conflict overseas.

Do you agree with the proposed outcome 3. Productivity and Innovation? - 3. Productivity and Innovation - New Zealand's freight and supply chain system is highly productive and innovative, and performs well when measured against global standards:
Strongly agree

If you have answered "Disagree" or "Strongly disagree" please explain why:

Do you agree with the proposed outcome 4. Equity and Safety? - 4. Equity and safety - We transition to a low emission, resilient, productive and innovative freight and supply chain system in a way that is equitable and safe for all:
Disagree

If you have selected "Disagree" or "Strongly disagree" please explain why here:

Disagree.

Strongly agree that safety is an important consideration and it is imperative our future supply chain has a strong safety focus. This goes beyond health and safety rules. As good employers, safety needs to be an uncompromising tenet to all operations. It needs to be taken as given that any operations, current or future, will be done in a safe manner.

Equity is more challenging. Markets do not produce equity, rather through millions of micro interactions and price signals they direct outcomes to where they are most valued. By definition, this is not equity of outcomes across all users and consumers. A focus on equity of outcomes from the supply chain will almost certainly result in market disruptions and distortions that are at odds with the goals of productivity, innovativeness, and cost-effectiveness / affordability.

It is not the role of the freight and supply chain to produce equity by means of the millions of micro interactions that occur on a daily basis and shape its operation. That is also beyond the ability of Government to centrally plan and/or deliver. If equity is desired as an outcome, that is the role of

Government to provide through Government policy – and not through market interventions and distortions which will frustrate the efficient operation of the freight and supply chain and result in poorer outcomes for businesses, employers and consumers.

9 Are there more outcomes the strategy should focus on? If so, please explain what they are.

Please explain here:

As mentioned above, workforce issues need a focus from government irrespective of whether the Ministry of Transport is the best placed agency to look at the issue. This applies to more sectors than just domestic coastal shipping.

10 Do you agree with the potential areas of focus for the strategy?

If not, please explain why:

Yes, with regards to areas 1 – 3. With regard to area 4, equity is more challenging as noted in our answer to question 8.4.

11 Which of these areas of focus would be most important to prioritise?

Type your answer here:

Safety of those who work within our supply chain has to be of paramount importance.
Beyond that, as noted elsewhere in this submission, resilience is crucial. All other considerations become secondary or irrelevant if the supply chain is not operating or severely disrupted.

Once we have certainty the supply chain is resilient, then the next most important area to focus on is making the supply chain as efficient as possible. Without an efficient supply chain, the quality of life of all New Zealanders is undermined. Prices increase, families cannot get access to the basic essentials needed, and businesses suffer which places employment and household security at risk.

12 What would successful stakeholder engagement on the development of the strategy look like from your perspective?

Type your answer here :

The Shipping Federation supports targeted engagement with industry operators and directly-relevant stakeholders with hands-on experience and knowledge of the supply chain, through direct one-on-one engagement and industry-specific workshops. We further recommend the use of an expert panel (advisory, reference, or otherwise) to inform MOT's thinking and work.

Governments the world over tend to have a poor understanding on the complexity and inter-dependencies of supply chains, while over-estimating their ability to plan or influence supply chains. The potential for unintended outcomes is high and having access to recognised experts reduces this possibility.

13 How could we best engage with Māori on the strategy?

Type your answer here :

No comment is provided here.

Provide further feedback

14 Any general feedback on the consultation

Add your comments, ideas, and feedback here:

The Shipping Federation wishes to express its gratitude for the engagement we have had from the Ministry of Transport in relation to the freight and supply chain strategy and the issues paper.

15 Upload supporting documentation

Upload documentation:
NZSF freight and supply chain issues paper submission.pdf was uploaded