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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 2022-05-31 11:52:51

What is your organisation?

Organisation:
Pan Pac Forest Products Ltd (Hawkes Bay and Otago)

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. :

We generally agree with the description of NZ freight and Supply Chain (SC) system, although we do not think there is sufficient differentiation made in the discussion document between domestic and export SC issues. The Pan Pac business is predominately export based (FY 21/22 spent $75 M NZD on freight, majority being international sea freight).

Supply chains competing in only the domestic market are not faced with international competitive pressures or service expectations and any inefficiencies can be spread over the whole NZ consumer economy as the NZ based costs, productivity or regulatory controls are equal across all domestic producers. International exporters have to compete at an international level. So for example if NZ Rail productivity is low it is the same for all NZ producers using NZ Rail to distribute.

Export supply chains of which the domestic portion is still important have to be internationally competitive. Aspirational initiatives specific to NZ (for example low carbon) cannot undermine the international competitiveness of NZ export businesses.

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::

We agree that a "whole of Government approach" is needed to ensure resilient NZ supply chains for the future. Traditionally NZ Government agencies are disparate across initiatives. For success, it will be necessary for inter agency, bipartisan support. For example there cant be a drive for Port efficiency at MOT level while at the same time MBIE is pursuing employment legislation that leads to reducing productivity and restrictive 1970s style work practices to satisfy political needs and Immigration NZ is restricting the availability of both skilled and semi skilled labour that results in artificially inflating NZ labour costs above their productivity generated.

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. :

Generally agree, however reiterate that SC's for distribution of goods within NZ will have different weightings of externalities to that of Export SC's. CV disruption to International shipping services has affected every area of the globe, not just NZ.

Land Use Change due to Climate Change adaption may result is some change in types of goods produced by region - but not necessarily the total amounts by region. We don't think this SC strategy should try and pick winners and losers from CC adaption.

Larger TEU rated vessels do appear to be a potential threat to regional ports and the logical response would be rail/coastal shipping to larger hub ports, however we remain very skeptical about the long term viability of rail in NZ due to factors such as age of infrastructure, RMA requirements to extend, natural disaster vulnerability exposing the weakest link and the endemic history of poor rail productivity in NZ. If hubing is required then most likely this service will continue to be provided by International shipping lines who have to manage container relocation as well as cargo transfers.

The A380 model did not work for airlines and there must be now millions of dollars wasted in upsizing runways for those beasts that have now been discontinued from service due to a change in airline business models and customer preferences. Bigger is not necessarily better.

4 Are there any trends missing that we should consider?

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

Pan Pac is an example of a Company that was established in Napier due to the locality of a deep water export port. There are many other examples of this in NZ, so please consider businesses that have strategic locations associated with regional ports. Picking a "winning" strategy for the many small domestic SC or the many small exporters could result in large productive assets becoming SC stranded.

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. :

International SC strategies need to be considered separately to domestic accepting the overlaps exist. Maintaining the interest/margins of the international shippers in servicing NZ is absolutely critical. NZ ports are poorly balanced for imports/exports and this requires the dead space repositioning of 90% of the containers used for export in NZ. As a Country we need to improve this imbalance by encouraging a better distribution of imports to regional ports which in turn will reduce pressure on our internal road and rail networks to distribute imported goods from AKL.

Port productivity and reliability is paramount to International shipping lines along with competitive charges at ports. Ports across NZ should be annually benchmarked on costs so that captive local industries are not penalized.

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:

Generally agree. Agree that the NZ sea export supply chains pre CV were quite robust and competitive (albeit under a condition of supply > demand) so that would be a benchmark as minimum level of service and costs to strive to return to as part of this strategic review. SC reliability is critical to international customers confidence. We enjoyed market growth/customer wallet share growth through 2015 to 2020 on several occasions as a result of failures in our International competitors supply chains. For example weather and infrastructure damage in Canada, Port strikes in Vancouver, Truckers strikes in Nth America, Port congestions in Europe.

Agree that having a skilled, stable and productive workforce across all modes of the SC is critical. Cargo care is an important aspect of SC reliability and this is not well suited to an itinerant style unskilled workforce.

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

If 'Yes' please explain here:

It is unlikely that NZ Supply Chains optimization will happen by chance. I think there needs to be more emphasis put on the role of collaboration and market design so that the smallish NZ SC can remain competitive with our International competitors.

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:
Disagree

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

While we are strong advocates for managing climate change we don't believe that biasing the SC strategic goals too heavily with CC issues is necessary - due to the relatively small proportion of NZ total GHG contribution from freight transport (Energy = 40% of Total GHG, Transport = 50% of the 40% = 20%, Freight = 25% of 20% = 5% of Total) compared to agriculture at 60% of the total GHG emissions which to date has had no restrictions applied to their business model. Industry in general is already being asked to do more of the lifting in all the other CC input sectors. There is currently limited feasible alternatives to sea freight bunker oil options so again if too higher aspirational targets are set for freight SC as a whole all the reductions will have to be done within domestic freight lanes as bunker fuel is not accounted for in carbon accounting.

If the outcomes of the strategy result in a cost increase to exporters to achieve a NZ specific emissions target then trade exposed exporters will need to compensated as per the EITE system for large energy users while they transition to a lower cost structure.

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:
Agree

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

We would prefer to see this category titled "Competitive Supply Chains" which encompass the attributes of reliability, resilience, cost, service.

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:
Disagree

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

Elements of the existing NZ SC are productive, however those elements compensate for the lower productivity links in the chain.
There are many productivity enhancements available now e.g. High Productivity Licenses for Road Freight, however the roading infrastructure on certain major links in NZ is well under developed and under funded. As an example SH5 linking Hawkes Bay with CNI has just had the speed limit reduced to 80 km/hr to compensate for under investment over many years.

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:
Strongly agree

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

Agree. We wont attract quality and reliable employees into the sector if it is considered a 3D industry. Dirty, Dangerous and Demeaning

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

Please explain here:

We would suggest that the strategy needs to have a separate but consistent set of domestic and export aspirational goals recognizing that there are common elements across both. As noted earlier export based businesses have to compete with international SC's so what might be a manageable cost impost in a domestic SC is not necessarily so in an export SC.

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

If not, please explain why:

Competitiveness internationally is critical. We cant have the best supply chain for NZ if it is not integrated or competitive with International supply chains.

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

Type your answer here:

Export supply chains are critical to the overall economic wellbeing of the NZ economy.

Specialization and Trade is the fundamental mechanism underpinning all economies wellbeing. If we cant competitively deliver NZ export goods and trade to all areas of the globe it doesn't matter how quickly we get a cell phone delivered from Auckland to Wellington - because no one in NZ will be buying cell phones.

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

Type your answer here :

We would like to consultation on the problem definition and the overall aspirational goals for the strategy, well defined and documented before solutions are identified.

Assumptions about aspects of NZ SC infrastructure need to be tested and converted to facts or recognised as an assumption. There are of course many commercial vested interests in the NZ SC industry - but in the end the cargo owners are the users of the system - not the system owners

Defining the needs and constraints is critical, otherwise we will end up solving the wrong problem.

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

Type your answer here :

Maori are already extensive commercial operators in their own right. I would not think they would expect to be treated any differently.

Provide further feedback

14 Any general feedback on the consultation

Add your comments, ideas, and feedback here:

Pan Pac would be available and supportive of being contacted to discuss or clarify any points made in this submission.

As noted earlier our annual spend on freight is in the order of NZD 75 Million. We have supply chain specialists working within our business and we deliver to many domestic locations and practically every major continent across the globe.

15 Upload supporting documentation

Upload documentation:
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