

PORT REFORM IN NEW ZEALAND
A MID TERM UPDATE

NEW ZEALAND BUSINESS ROUNDTABLE
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1. INTRODUCTION

In September 1989, the New Zealand Business Roundtable (NZBR) and Federated Farmers of New Zealand Inc. (FFNZ) published a comprehensive analysis of ports and shipping reform.¹ That report:

- documented the changes which had already occurred in response to government policy announcements since the mid 1980s;
- assessed the likely course of events following the introduction of new waterfront employment arrangements which were due to take effect on 1 October 1989; and
- outlined a range of further reform measures which would be necessary to maximise the benefits for the New Zealand economy.

The new waterfront employment arrangements have now been in operation for nearly a year. Considerable change, stimulated by a significant reduction in the size of the waterside workforce, has occurred. A new round of award negotiations is scheduled for later this year. It therefore seems opportune to:

- assess the impact and benefit of the changes which have occurred since the earlier report;
- highlight the potential risks which might prevent the existing improvements from being sustained; and
- reiterate (or modify) the agenda for further reform.

The results of this assessment can be summarised as follows:

- the extent of earlier overmanning on the waterfront is apparent in the 44 per cent reduction in waterfront employment which occurred from October 1989;
- the reduced workforce is handling as much, if not more, cargo than before, resulting in substantial gains in labour productivity;
- this has led to substantial reductions (ranging from 20 to 50 per cent) in stevedoring charges for conventional shipping;

¹ NZBR, FFNZ (1989), *Ports and Shipping Reform in New Zealand: Current Developments and Future Requirements*.

- in many ports, there has been an encouraging attitudinal shift in that employees are associating themselves strongly with the interests of their new employers and taking a greater pride in their work than before;
- individual employees are generally earning more not less under the new arrangements, thus scotching the fear expressed previously that waterside remuneration would be dramatically reduced;
- a number of conventional shippers are already benefiting from reduced freight rates; in some other cases, these benefits have not yet been fully realised;
- there is some evidence of increased inter-port competition as a result of these changes with cargo flows shifting in response to improved performance;
- improvements are not as apparent in container shipping operations, both because the extent of initial overmanning was less and because not all benefits have yet flowed through into cheaper freight rates;
- at the forthcoming award negotiations it is vital that further progress be made in the ~~direction of port by port agreements rather than a standardised national document~~ – indeed, a return to a national award structure could jeopardise the benefits already achieved for both shippers and waterfront employees;
- this process will be facilitated to the extent that cargo interests maintain a close and strong involvement in the negotiations, as they did last year;
- while the government has signalled its intention to remove the '51 per cent rule' (which ensures that control of port company ownership remains with local and regional authorities) there are worrying signs that local authorities see port companies as a convenient 'cash cow' for their budgets; and
- this is quite contrary to the government's policy objectives, overlooks the windfall nature of port company assets transferred to local authorities, and may necessitate legislated divestiture if port company shares are not sold voluntarily.

2. THE OCTOBER 1989 CHANGES

On 30 September 1989, the Waterfront Industry Commission (WIC) ceased to exist. It had previously employed all waterside workers engaged by stevedoring companies on a pool basis. In its place, normal employer-employee arrangements came into effect. There was a period of dislocation in October lasting several weeks (and in Tauranga somewhat longer), as industrial action was taken in an attempt to influence the outcome of award negotiations. These negotiations covered the usual issues of terms and conditions, plus redundancy provisions which were to apply to those watersiders not being re-employed. A set of principles was agreed at a national level and local negotiations specified a number of terms and conditions on a port by port basis.

The government agreed to facilitate the negotiations by requiring a 75 per cent levy for three years on the net income of former harbour board land and a maximum 5 per cent levy on port company shares be set aside to help meet redundancy provisions. \$30 million was to be provided via this means and any surplus funds after the winding up of the WIC were also to be made available.² The balance of redundancy costs was to be met by 'the industry' – shippers, stevedores and/or ship operators. ~~The government stipulated that funds were to be paid on the condition that 'real benefits were shown to accrue'.~~ For this purpose, a temporary Waterfront Industry Restructuring Authority (WIRA) was established.

In the event, New Zealand's waterfront workforce declined by no less than 44 per cent overnight. With an additional 370 employees having been made redundant over the previous twelve months, this brought the total reduction to just on 50 per cent. It followed a 40 per cent reduction in the number of harbour board employees at the time port companies came into existence.

This figure can only be described as an indictment of the extent of overmanning which had occurred in New Zealand ports over many years – an intolerable amount of lead in the saddlebags of New Zealand exporters, and a substantial cost to all New Zealanders.

A breakdown of the redundancies on a port by port basis, together with the average redundancy payouts, is shown in Table 1.

² For example, it had been expected that an amount of \$10 million may have been available from levies collected for, but not required to be paid to, the Accident Compensation Corporation. The actual sum available was somewhat less than this amount.

By December 1989, WIRA had paid \$28.3 million to the new waterside employers (stevedoring companies or port companies) who in turn made full redundancy payments to the relevant former watersiders. The eventual payment by WIRA is expected to be \$37.9 million.³

Additional redundancy payments have been met by the port companies, bringing the total payout to around \$45 million. As most port companies did not have sufficient financial reserves to meet these obligations, levies on cargo or stevedoring operations were imposed at most ports to fund the shortfall. These levies were struck on a port by port basis and extend for varying time periods.

Port	Employment 9.89	Employment 3.90	Redundancies	(%)	Total Redundancy Payment (\$m)	Redundancy Payment Per Employee (\$)
Auckland	863	518	345	40	11.57	33,500
Tauranga	441	202	239	54	8.24	34,500
Wellington	344	193	151	44	5.49	36,400
Lyttelton	423	237	186	44	5.89	31,700
Otago	169	105	64	38	1.51	23,600
Whangarei	39	24	15	38	0.41	27,600
Napier	311	151	160	51	4.96	31,000
New Plymouth	93	49	44	47	1.22	27,600
Nelson	94	60	34	36	1.10	32,300
Timaru	153	108	45	29	1.77	39,200
Bluff	190	120	70	37	1.83	26,200
Gisborne	26	6	20	77	0.73	36,300
Picton	8	-	8	100	0.24	30,300
Westport	<u>2</u>	<u>-</u>	<u>2</u>	<u>100</u>	<u>0.04</u>	<u>19,900</u>
Total	3156	1773	1383	44	45.00	32,500

Source: Derived from information supplied by WIRA. There may be some minor variations – or further improvements – in these figures. For example, in a recent paper, the Chief Executive of Port of Tauranga Ltd stated that Tauranga waterfront employment fell by 257, not 239 as shown in the table.⁴

For this total redundancy cost of \$45 million, the direct savings accruing in the first year have been estimated at \$58 million by the Minister for Transport.⁵ This means that the payback period will be less than one year – an impressive result by any standards.

³ Jeffries, Hon. W.P. (1990), 'WIRA Makes Valuable Contribution', Press release 14 April 1990.

⁴ Halling, J.M. (1990), 'Port Reform: The New Zealand Experience,' paper presented to the 32nd biennial conference, Australian Association of Port and Marine Authorities, Darwin, June 1990.

⁵ Jeffries, Hon. W.P. (1990), Address to Waterfront Reform Seminar, Christchurch, 3 July 1990.

3. IMPACT ON LABOUR PRODUCTIVITY AND PORT PERFORMANCE

The fact that New Zealand's ports are now handling as much cargo as before October 1989 (if not slightly more) with roughly half the labour force indicates that labour productivity has increased substantially. The extent of the increase is not necessarily proportional to the reduction in waterside employment because the figures in Table 1 relate only to the permanent workforce. In addition, stevedoring companies can now supplement these numbers with casual employees, on a much more flexible (and therefore less costly) basis than previously.

Nevertheless the gains in labour productivity are impressive.

For example in the port of Tauranga for the three months January to March, the average cargo tonnes handled per ship day in port were 1,550 in 1989. In 1990, after the employment changes had come into effect, the equivalent rate was 2,500 tonnes – an increase of over 60 per cent.⁶

Also at Tauranga, the volume of logs loaded per gang per hour has risen from 70-80 cu m to 110 cu m. Given that the gang size has fallen from 10.5 to 6, this implies an increase in labour productivity of roughly 150 per cent. As a result, Tauranga claims that its log loading productivity is now the highest in the world.

One of the reasons manning levels had been so high in conventional ports was the practice of 'spelling', involving the regular rotation of employees – a century old legacy of more arduous pre-mechanical equipment working conditions.⁷ This outdated work practice no longer operates. As a result, gang sizes have been substantially reduced, for example:

- Auckland, from 12 to 7;
- Tauranga, from 12 to 6;
- Napier, from 12 to 7; and
- Timaru, from 14 to 7.

Working hours have become more flexible and a number of ports are now working on a 24 hour a day, 7 day a week basis. At the port of Tauranga, stevedoring employers, backed by shippers, insisted that this flexibility be enshrined in the local award in the form of what became known as the '5 in 7 rule'. This enabled employers to adjust working arrangements so their employees could be paid on a 5 day a week basis, with the actual days involved varying in line with vessel availability. This arrangement was a sticking point in the negotiations and caused additional industrial hold-ups

⁶ Halling, J.M. (1990), personal communication.

⁷ NZBR, FFNZ (1989), *op. cit.*, p. 11.

at Tauranga. However, it is now working satisfactorily and shippers are benefiting from the greater flexibility which prevails.

At Nelson similar improvements have been recorded. For example, in the loading of woodchips before October 1989 8 employees were required to work four 6 hour shifts. Now loading can be completed by 6 employees working three 8 hour shifts.

In the very small commercial ports of Picton and Westport, permanent stevedores have been dispensed with completely. Port Marlborough Ltd at Picton reports that it simply engages casual employees as and when the need arises. This ensures that costs remain low for port users.

Greater flexibility has also resulted from multi-skilling and the breaking down of some previously rigid demarcation issues. For example, prior to the passage of the Ports Reform Bill in 1988, harbour workers had sole rights to operate mobile plant, such as forklifts, on the wharf proper, while watersiders had exclusive rights to load or unload to or from the vessel. This led to a line of demarcation – the chalk line or point of rest – at the side of the wharf.⁸ Where this demarcation no longer operates, savings of \$10,000 for each Roll On-Roll Off vessel have been claimed.

The enhanced productivity which has resulted from the changes made has encouraged shippers and stevedoring companies to invest in new technology. Previously, they could not do so – in fact if not in theory – without union approval, and even then the benefits were substantially appropriated in the form of additional allowances of one type or another. Now, companies have greater confidence to make the necessary investments, both because the equipment will be used as intended and because the benefits from doing so will be spread more equitably between the parties. Examples include the unloading of bananas at Auckland and the loading of pallets of pulp at Tauranga. In each case, the cargo handled in a given time period has roughly doubled following the introduction of larger slings or pallet straddle frames.

Indeed, there is now a major challenge – unanticipated prior to 1 October 1989 – for management to think laterally and devise better, quicker, cheaper and/or smarter ways of doing things. It is extremely unlikely that all opportunities have yet been realised and hence further improvements in productivity and efficiency are likely to be achieved in the future.

Similarly, improved rates of cargo handling are posing new challenges well away from port areas – for example, in the marshalling of cargo within shipper premises, or its transport from point of production to the wharf. These challenges will require new approaches within production and transport industries, including the need to terminate any rigid work practices which limit industry's capacity to meet new stevedoring productivity levels.

⁸ *ibid.*, p. 14.

The various improvements which have occurred to date have been reflected in faster vessel turnaround times. The results are already considerable as the following figures indicate:

- Auckland, from 2/3 days to 1/2 days;
- Napier, from 2 days to 1 day;
- Nelson, unchanged at 2 days;
- Timaru, from 2/3 days to 1 day;
- Tauranga (pulp), from 5/6 days to 3 days; and
- Tauranga (logs), from 7/10 days to 3 days.

Faster vessel turnaround times in turn result in improved (more frequent and more reliable) sailing schedules, reduced shipping costs, reduced cargo costs (such as interest payments covering cargo in transit), and the opportunity for ports, having improved their berth occupancy rates, to compete for cargo elsewhere at more competitive prices.

Overall, the productivity improvements appear to have been greater than expected. This has been acknowledged by a number of shipping companies, stevedoring companies, port companies and shippers. It follows that there may well be scope for even further reductions in manning levels (given that 1989 stevedoring employment decisions were based on somewhat lower expectations) or, preferably, the opportunity for a higher proportion of New Zealand's national output to be traded internationally.

The initial financial results of the port companies have also been encouraging. Tauranga's first year produced a return on shareholders' funds of 14.5 per cent, better than the 11-12 per cent expected and, needless to say, a substantial and welcome improvement on the 1 per cent earned by the former Harbour Board. Napier earned 15 per cent, Lyttelton 14 per cent and Southport earned 11.2 per cent for the six months to March 1990, compared with an expected return of 9 per cent. Some port companies, such as at Lyttelton and Tauranga, have paid dividends to their shareholders, something which was not a feature of the pre-port company era.

Admittedly, these returns may look healthy because the process of asset valuation at the time of the formation of port companies was reasonably generous, but it would be hard to dispute the view that the port companies are operating in a much sounder and more commercial way than under the previous regime. This, after all, was the government's objective.

A vital part of the whole process has been the achievement of attitude changes among the workforce. Breaking down old prejudices – on all sides – is a necessary pre-condition for improved productivity and performance. If employees have a pride in their work and associate themselves with the interests of the company which employs them, substantial improvements are

possible. Simply a name change – from 'watersider', which had over time developed a pejorative tone ('wharfie'), to the more dignified 'stevedore' – is part of this. As an example, the following account of the nature of the changes has been given by a stevedoring company manager:

"There are now fewer people doing more work at a cheaper price. Prior to October, the men accepted that the game was up but the membership was not told by the union the full story, so there was a lot of trepidation. I addressed all the men before 1 October. This eased many fears.

"The union wanted to be the agent for all new applicants but this request was declined. I interviewed all applicants and told them that their remuneration wouldn't be less than current levels. The response was excellent, and the local union officials helped.

"The 'them and us' attitude has now gone. There has been a huge attitudinal shift. The average person is a good worker who has been poorly led. There is now much talk of 'the company' and the men and the local union are now quicker to query what they hear from their national office. This makes for better accountability.

"A management committee meets once a fortnight. There is free and open discussion which has resulted in the previous monthly stopwork meeting being cancelled, as most issues can be resolved without it.

"There is competition from other stevedoring firms, which keeps everyone on their toes. Inter-port competition can also be substantial if costs are held down. We have benefited from this already and the men recognise the potential benefits – and the risks.

"One of the best outcomes has been the flexibility to use casual employees. The casuals want to work well, knowing that there could be a permanent job down the track. Equally, the permanents don't want to be shown up by the casuals."

This description does not necessarily apply with equal validity to all ports or all stevedoring companies. A general impression is that performance in the regional ports has so far surpassed that in the major ports. This may reflect the closer relationships, and hence shared objectives, which exist in regional communities.

Nor should it be concluded that all possible benefits have yet been realised; obviously many further improvements exist. Nevertheless, the examples given above are widespread and significant. They exceed the expectations of many within the industry.

One of the fears widely expressed prior to the commencement of the new arrangements was that workers would be exploited and that wages would be set at 'bargain basement levels', 'just like in the bad old days'. Not surprisingly, these fears were fuelled by union leaders, especially at the national level, who could see a threat to their power base, especially if agreements were negotiated at a port by port level.⁹

⁹ *ibid.*, pp. 32-33.

These fears have proved groundless. Stevedores may now be working harder than before and there may be fewer of them. But their remuneration level has generally risen not fallen, frequently by up to 10 per cent in the first year.

Some concerns have been expressed that safety has been sacrificed in the drive for higher productivity. Whether this is valid, or whether it is more in the nature of an industrial negotiating tactic, is hard to say. If there is any validity in safety-related arguments, the appropriate way to deal with them is via sensible negotiation between individual managements and workforces. It does not constitute a case for altering the basic structure of the new arrangements.

Perhaps the most encouraging anecdote of all concerns a stevedoring company at a regional port. The company had constructed a new amenities block for its new direct employees. When construction had been completed, a number of the employees attended a weekend 'working bee' – in their own time – to apply some finishing touches, such as internal cupboards and paint work. It would be difficult to imagine that this would have happened prior to October 1989.

4. IMPACT ON STEVEDORING AND PORT CHARGES

Not surprisingly, the improved labour productivity and port performance has enabled substantial reductions in stevedoring charges. As noted earlier, the first year savings have been estimated at \$58 million. The largest, and only national, stevedoring company, New Zealand Stevedoring, has reported cost savings amounting to \$23 million per annum.

Conventional stevedoring charges have been reduced by between 20 and 50 per cent since October 1989. It is difficult to obtain comprehensive figures of what is frequently regarded as confidential information. Moreover, the outcome varies according to the labour intensity associated with the particular commodity involved. However, the New Zealand Dairy Board has indicated that its costs of conventional stevedoring have fallen by around 30 per cent. Stevedoring cost reductions for apples and pears have been somewhat greater, at 50 per cent, according to the Apple and Pear Board.

A number of new stevedoring companies have commenced operations. There are several joint ventures involving port companies, some of which pre-date October 1989. Examples include Nelson, Timaru and Northland. Those in Timaru and Northland are joint ventures with established stevedoring companies, while the Nelson company is owned by Port Nelson Ltd and shippers. Typically, these joint ventures occur in ports where New Zealand Stevedoring would otherwise be dominant. Other port companies are investigating stevedoring activities, for example, Port Marlborough.

In a recent development, Lyttelton Port Company has formed its own conventional stevedoring subsidiary so as to increase competition at the port. It will achieve flexibility by being able to redeploy stevedores to other activities as required.

Apprehensions have been expressed in the past that stevedoring operations involving port companies may be able to achieve a position of market dominance with the aid of predatory pricing, cross-subsidised from other port company revenue. A recent High Court case involving Port Nelson Ltd has clarified the issues. Port Nelson Ltd sought to charge a price for the use of some of its facilities which the user, New Zealand Stevedoring, believed was excessive. Port Nelson Ltd argued that it was entitled to earn a reasonable margin, including a profit component, for the use of facilities. In its judgment, the High Court accepted that that the company was entitled to impose charges and earn a realistic return on its investment. There do not appear to be serious grounds for concern that port industry participants have significant latitude to behave in a monopolistic fashion.

Competition in stevedoring services can occur without the necessity for separate companies operating permanently in a port. For example at New Plymouth, an Auckland stevedoring company has won contracts for fertilizer unloading.

At Bluff, the principal shipper, Comalco, has formed a new stevedoring company to inject additional competition at the port. The experience to date has been one of genuine rivalry between the two companies, from which shippers have benefited.

Competition of a different type is developing in Auckland where a joint venture between the shipping company Sofrana and the large Australian stevedoring company Patricks, has been formed. This development has already caused some heartburn to an established stevedoring company, which has lost business and considers that it is exposed to possible additional redundancy costs should it be forced to reduce its workforce.

Two comments should be made in response to this development. First, the prospect of new entrants was always envisaged, indeed encouraged, as an integral part of the competitive era. All incumbent operators should have recognised the possibility and taken it into account when planning their permanent employment requirements. Second, a company facing competition from a new entrant always has the option of reducing its prices in order to retain business and market share. There seems to be no further justification for industry-funded redundancy costs.

Some might continue to argue that this type of competition demonstrates the value of pooled employment, rather than normal direct employment, where the consequences of robust competition might be awkward for some incumbents and their employees. This argument is invalid. Experience has shown that pooling mechanisms blunt competitive pressures rather than facilitate them. The stimulus of competition between stevedoring companies and the incentives for increased labour productivity would be lost. An analogy can be drawn here with the 'corner' system of employment of seafarers on New Zealand vessels. Rather than the dynamics of the new waterfront arrangements strengthening the case for the retention of the corner system, they actually strengthen the case for its termination.

Prior to the new arrangements taking effect, a number of shippers, or shipper groups, indicated an interest in forming stevedoring companies. To date, with the exception of Bluff, none of these has yet eventuated. The general view seems to be that, provided the input of shippers into industrial relations is maintained, there can be reasonable confidence of further progress in the right direction and no present need for shippers to contemplate the establishment of competing companies. However, a number of groups are keeping their options open and should there be any deterioration in performance new competitors are likely to develop. It is therefore vital that barriers to entry remain low. A serious issue here is that employment conditions negotiated by existing stevedores may continue to be binding on other parties wishing to get into stevedoring. The removal of subsequent parties clauses from each Code of Employment is an important element in lowering competitive barriers.

Turning to port company charges, the picture is not totally clear. A number of port companies have been able to hold charges constant over an extended period, thus implying significant reductions in real terms. For example, the Tauranga port company has held its charges fixed for two and a half years. The Auckland port company set itself an objective of a 10 per cent reduction in real terms over a two year period. The objective was met within 18 months and the cumulative figure since May 1988 now stands at around 14 per cent. The Wellington port company has reduced container handling charges by between 10 and 15 per cent since October 1989. This reduction includes the earlier than expected ending of a \$20 per container levy to fund the port's share of redundancy costs.¹⁰

According to the Minister for Transport, there were no changes in any port company charges between September 1988 and December 1989, a period in which the consumers price index rose by 8.5 per cent. Port Nelson Ltd has not increased its charges since December 1987, which equates to a real saving of 14 percent today. These reductions have occurred despite the fact that port companies are now liable for income tax, land tax and dividends. All four container terminal operators have also reduced their charges.

Reductions have been made in some specific charges. For example, the container packing charge at Auckland has fallen by about 30 per cent, from \$950 to \$650 per container.

Despite these examples, there are a number of suggestions that they only tell part of the story. Three types of concerns have been raised. First, it has been claimed that a wide range of port charges were increased significantly in the first half of 1988, providing a convenient benchmark against which subsequent reductions might be assessed.

Second, it has been claimed that a number of port companies have changed their basis of charging, thus making 'before and after' comparisons difficult. An example quoted has been a change in a forklift hire rate from a daily rate to a flat per lift rate. Port companies respond that these changes have been made for reasons of simplification and standardisation, and that they consulted with clients before the changes came into effect.

Third, instances of very steep increases in particular charges have been cited, including those levied by the government itself. Examples mentioned have included a 450 per cent increase in light dues, a doubling in the oil pollution levy, and a 55 per cent increase in garbage rates.

¹⁰ *The Dominion*, 3 July 1990.

It is difficult to reach an unambiguous or quantified conclusion regarding port company charges overall. On average, they have certainly fallen in real terms, though probably not by the extent suggested in some of the more prominent claims. This reaffirms the need for transparency in port charges – details of movements up and down, enabling comparisons over time and between different ports. This was a conclusion of the earlier NZBR, FFNZ report.¹¹

It is therefore welcome that the Minister for Transport has signalled his intention that the Ministry of Transport should collect, analyse and publish details of port prices on a continuing basis.¹²

11 NZBR, FFNZ (1989), *op.cit.*, Section 6.2.

12 Jeffries, Hon W.P. (1990) *op.cit.* (Christchurch address).

5. IMPACT ON FREIGHT RATES

Of course, the principal purpose in seeking greater waterfront efficiency is to generate benefits to shippers in the form of cheaper freight rates. In this way the competitiveness of New Zealand's exports can be enhanced and New Zealand consumers can benefit from cheaper imported goods.

The impact of the new port reform measures on freight rates is less clearcut than in the case of labour productivity and stevedoring costs. This partly reflects other factors contributing to freight costs and substantial variation in the importance of stevedoring costs to freight rates between commodities – especially between containerised and conventional cargo. Nevertheless, a number of freight rate benefits can be identified and quantified.

Where the shipper pays the stevedoring charges directly, as occurs with much conventional shipping, the savings accrue immediately. Where these costs are paid initially by the shipping company – in the case of some conventional and all containerised cargo – the benefits may be somewhat slower to flow through to shippers.

In the case of conventional cargo, such as apples and pears, some dairy products and timber products, total freight rate savings of between 5 and 10 per cent have been reported. The New Zealand Apple and Pear Marketing Board no longer pays the 'under-cover bonus' which is a saving in excess of \$500,000 p.a. for the Port of Nelson alone. It has also been estimated in the case of Nelson that the annual saving to shippers of not having to meet the cost of air travel and hotel accommodation for transferred-in watersiders to meet peak demand is in the region of \$700,000.

With containerised cargo, there are frequently fixed period contracts (usually at least one year) during which freight rates do not vary. Therefore the benefits which have accrued since October 1989 may not yet have flowed through to shippers. However, some shippers, such as the Dairy Board, believe that freight rates for 1990 were set somewhat lower than they otherwise would have been (possibly by about 4 per cent) in the expectation of the post-October benefits. Given that expectations have generally been exceeded, there would be room for further reductions to be negotiated later in 1990.

In general, the potential for freight savings with containerised cargo will not be as great as for conventional cargo. Labour costs constitute a lower proportion of total freight costs with containers and the extent of initial overmanning in these areas was probably somewhat less.

However, this is not to suggest that potential benefits are not substantial. The present workforce at the Wellington container terminal, for example, is 130 – 100 fewer than a year ago. Longer working hours – 24 hours a day, seven days a week if necessary – have now been introduced in

several ports, allowing for more efficient capital utilisation and faster vessel turnaround times. The abolition of the point of rest, as noted earlier, can save \$10,000 per RO/RO vessel sailing.

Nor should too much weight be given to offsetting arguments which may be raised by shipping companies – for example, the impact of last October's extended industrial disruption (the extra costs will have been made up over a full year, given a better industrial climate now and in future, and freight reductions on this basis should be possible), increased port company charges (perhaps in some areas but not overall), or the redundancy levy (it is now starting to be terminated in some ports, such as Wellington).

One shipping company has been quoted as saying its cargo handling costs have fallen by 39 per cent in Auckland, 26 per cent at Tauranga, and 66 per cent at Nelson.

The benefits from faster vessel turnaround times need not be reflected only in terms of cheaper freight rates. They can also be seen in terms of improved quality of shipping services – such as more frequent or regular sailing schedules or additional ports serviced.

~~On the latter point, the Japan shipping conference now services Napier as a direct shipment port.~~ This is important to the wool industry, among others. COSCO, servicing China and Japan, also now calls at Napier. Other services, especially to Asia, are believed to have added additional discharge ports, using the time made available from faster vessel turnarounds in New Zealand. These are important benefits for many shippers.

In terms of overall savings to particular commodities, the following figures have been cited:

- dairy: a saving of \$5 million over the first 8 months;
- New Zealand Refining Company: a saving of \$8 million from reduced pilotage and towage costs charged by the Northland Port Company;
- the fertilizer industry: a saving of \$5 million – with charges falling from \$17 to \$6 per tonne; and
- a claim by the Minister of Agriculture that the average New Zealand dairy farmer has benefited by \$350 per annum from a combination of cost savings and revenue enhancement.

6. IMPACT ON INTER-PORT COMPETITION

In the earlier NZBR/FFNZ report, considerable stress was laid on the importance of inter-port competition in ensuring that the benefits of port reform were both maximised and sustained.¹³ The report noted doubts in some quarters that significant inter-port competition was feasible.

What then has the experience been since October 1989?

Several instances can be cited where cargo has shifted from one port to another in response to improved performance. A number of dairy cargoes have been shipped via New Plymouth rather than Tauranga. A major shipper of general cargo has transferred allegiance from Wellington to Napier.

Apart from smaller items of cargo handling equipment introduced into New Zealand ports since October 1989, of which mention has already been made, there have been a number of much larger investments, which total over \$90 million. These include a multipurpose crane at Timaru, a new berth at Tauranga and a new crane at Auckland. These investments have been made without the 'guidance' of the New Zealand Ports Authority, which was terminated earlier in the reform process.

At the very least the timing of the investments has been expedited under the new autonomy; some investments may not have received approval under the Ports Authority approach. Whether they turn out to be good investments, only time, and market pressures, will determine. However, now that the investments have been made, and the port companies need to earn a commercial return on them, it is highly likely that they will be a force for enhanced, not diminished, inter-port competition.

The omniport spiralveyor equipment previously installed at Napier has resulted in this port being served by several new container vessels. Wool would be among the cargoes benefiting from this development. Similarly, Timaru has captured cargo which was previously flowing through the port of Lyttelton.

Just as the installation of new equipment is enabling conventional ports to compete for cargo previously the exclusive domain of container terminals, so the abolition of the ban on non-cellular vessels using container terminals¹⁴ has meant that different vessels have been able to be serviced at container terminals. This has widened port options and shortened turnaround times for the vessels concerned.

¹³ NZBR, FFNZ (1989), *op.cit.*, Section 6.2.

¹⁴ *ibid.*, p. 12.

A final example of inter-port competition is within a port, for example between the container and conventional ports at Lyttelton. As a Lyttelton port company official stated when its decision to enter the stevedoring business was announced:

'reports had filtered through that charges at Lyttelton were higher than elsewhere because of a lack of competition and the company was concerned about a loss of shipping as a result.'¹⁵

This is exactly the type of competitive, commercially driven attitude which the government's port reforms were designed to promote. While much trade remains captive to particular ports, reductions in internal transport costs and port reform are increasing the significant fraction that is contestable.

¹⁵ As quoted in *National Business Review*, 3 July 1990.

7. FUTURE AWARD NEGOTIATIONS

The renegotiation of award conditions later this year is obviously crucial to the long-term success of port reform. The objective must be to consolidate and extend the achievements already made – principally by strengthening the local orientation, rather than the national orientation, of the awards.

It needs to be stressed that this process is far from a 'zero sum game' as far as the employees are concerned. Individual employees have gained from the reforms so far, and there is no reason why they should not continue to do so, from a position already highly remunerated by New Zealand standards. It simply depends on the productivity which can be achieved from labour and capital.

Already, preparation for the negotiations is well advanced in a number of ports and major shippers are actively involved. This continues the desirable precedent established last year. However, it is not clear that preparation is well advanced at all ports and some external encouragement would be desirable from groups such as bulk shipper organisations, the producer boards, the Business Roundtable, Federated Farmers and the Employers Federation.

It is interesting to note that the organisation which previously handled waterfront negotiations, the New Zealand Association of Waterfront Employers, has now ceased to operate. This is a reflection of the changed relative positions of major groups, described in the earlier report.¹⁶

Another important ingredient to the success of the negotiations will be regular interaction between management and employees at an individual stevedoring or port company level. Given the success which this consultation has evidently had over the past twelve months, it should be extended to the award negotiations context. The aim should be to ensure that employees recognise the common objectives in a more competitive environment between their interests and those of the company which employs them.

¹⁶ NZBR, FFNZ (1989), *op.cit.*, Section 6.1.

8. FURTHER LEGISLATIVE CHANGES

Since the 1989 negotiations steps have been taken to amend the Labour Relations Act to provide that the loading and unloading of ships is deemed an essential industry. This means that 14 days' notice must be given of any threatened strike action, a requirement which hopefully will have a settling effect on the general industrial climate. It would be extremely beneficial to New Zealand if the award negotiations this year could be conducted without the extensive dislocation which occurred last year. This should be possible given that, on this occasion, the matters under discussion are relatively straightforward.

Last March, as part of a more general economic statement, the government signalled its intention to amend the Port Companies Act to remove the requirement that at least 51 per cent of port company shares be owned by local government. The necessary legislation is in the process of being considered by Parliament.

This was an issue discussed in some detail in the earlier report¹⁷ and the government's amendments are consistent with the report's recommendations. As the earlier report stated:

'this limit is already discouraging some groups from seeking to invest in port companies on the grounds that continued parochial control may be inconsistent with the interests of commercial decision making.'

Indeed, apart from some interest in establishing share ownership schemes for port company employees¹⁸ – a welcome development in itself – there have been no changes in port company shareholdings since their establishment. This reflects the concerns of potential investors, as noted above, and the reluctance of local authorities to dispose of what are seen as being usefully profitable commercial operations.

For this reason, the Minister for Transport has also required all local authorities owning port company shares to submit to him, prior to 30 September 1990, proposals for selling their shares. The Minister has not yet stated that if those proposals are unsatisfactory he will legislate to make divestment mandatory, but by implication he has left that option open. In his address to the Christchurch waterfront reform seminar on 3 July, the Minister said:

'I would ask local authorities to examine closely their motives for retaining port company shares in the context of the objectives of the Port Companies Act'.

¹⁷ *ibid.*, Section 6.4.

¹⁸ McKenzie, F.G. (1990), 'Port Reform – the New Zealand Experience', paper presented to the 32nd biennial conference, Australian Association of Port and Marine Authorities, Darwin, June 1990.

This matter was also considered in the earlier NZBR, FFNZ report:

'While in an ideal world there may be no need for legislation to force privatisation of port companies, the Auckland situation (where there were suggestions that the Auckland Regional Authority was keen to use port company income as a means to restrain general rates) suggests otherwise. It will obviously be vital for the issue to be kept under constant review'.¹⁹

In the intervening period there have been more indications that regional authorities have not always been acting towards port companies in ways consistent with the government's objectives. For example, three directors of the Tauranga port company were replaced in circumstances which led to considerable criticism from shippers and other groups. The Port Lyttelton company's shareholders recently rejected a proposal developed by the port company for a public share issue in order to increase capital. The two local authorities with shareholdings in Port Nelson Ltd forced the company's directors to increase the recommended dividend. Nelson Mayor and port company director Peter Malone has been reported as declaring himself a "'total socialist' when it came to the sale of essential utilities such as ports and electricity supply authorities".²⁰ The Nelson City Council has also taken an uncommercial approach to the setting of directors' fees.

For these reasons, it now seems clear that if the proposals presented to the government by local authorities later in the year are not satisfactory, then mandatory divestiture of port company shares should be legislated. While some local authorities and port companies might operate for a while in the manner intended by the government, over time the erosion of the benefits of port reform would be inevitable if the present shareholding arrangements are maintained. In those circumstances, a majority of shares, and perhaps as high as 75 per cent, should be required to be sold, with regional authorities, of course, free to sell 100 per cent.

At the same time, any general provisions which limit the capacity to issue shares to employees – including on a slightly preferential basis – should be reviewed. Employee share ownership is a desirable principle which will encourage employees and port companies to act in their own mutual best interests. Any legislative encouragement to this course of action should be made concurrently with other changes.

¹⁹ NZBR, FFNZ (1989), *op.cit.*, p. 45.

²⁰ *Nelson Evening Mail*, 22 March 1990.

9. OTHER ISSUES

Impressive though the gains made to date in New Zealand's ports have been, there should be no suggestion of complacency, or that the task has been completed. There is, after all, always the risk that initial gains will not be sustained. This alone calls for the active involvement at all times of those interests who ultimately gain most from efficient port operation – export shippers.

A number of issues for the future have already be flagged in this update, many of which were also identified in the earlier report. These include:

- the need for transparency in stevedoring and port company charges, so that opportunities for inter-port competition can be maximised;
- the opportunities for lateral thinking within stevedoring company management to devise improved ways of doing things;
- the need for shippers and the transport sector to improve their performance, now that some previous bottlenecks at the waterfront are being eased;
- the need for future award negotiations to focus at the local, rather than national level;
- the desirability of business organisations encouraging active shipper participation in the preparation of negotiation strategies, on a port by port basis;
- the necessity for wider port company share ownership, especially among interests who will be committed to ensuring maximum port efficiency; and
- the desirability of employee share ownership.

Some other issues for consideration include the following:

- the desirability of linking remuneration for port company and stevedoring senior management more explicitly to measurable performance indicators;
- the specification and publication of port company objectives, not only in terms of profit and return on shareholders' funds, but also in terms of declining real levels of charges in line with continued improvements in productivity; and
- the need for more comprehensive reform of the Labour Relations Act.

Amalgamation between the Waterfront Workers Union and the Harbour Workers Union – and possibly also the seafarers – is currently being discussed. If this results in the termination of further demarcation problems it may be a desirable change. More important, however, is the need for employees at the local level to be able to determine their own future rather than being obstructed by national union considerations. This includes the issues of voluntary unionism, the ability of

workers to choose alternative unions or agents to represent them, and the removal of the 1000 member restriction on union size.

The wool industry is in the process of removing the New Zealand land leg transport component from the freight rate. Changes have already been made in the European and United States shipping areas and follow similar moves in Australia. These changes are consistent with the principle of those bearing the costs having greater responsibility, which is encouraged by transparency of costs and the opportunity for competitive services to be offered. A future step might be to have the wool industry accept responsibility for paying directly all port related charges, notwithstanding the obvious logistical difficulties which would need to be resolved.

Before the process of waterfront reform commenced in New Zealand, it was generally believed that Australian waterfront costs were 30 per cent higher than in New Zealand. Now the claim is made that Australian costs are 60 per cent higher. This is a welcome achievement which, inter alia, reflects poorly on Australia's approach to reform. However, it must be recognised that there is no end point to the reform process, and it is even possible that Australia may soon begin to chip away at the existing margin.
