

Ministry of Transport

on:

New Zealand freight & supply chain issues paper.

3 June 2022

Submission by:

The Manufacturing Alliance

This submission is on behalf of the New Zealand manufacturing industry. The Manufacturing Alliance is a collaboration of industry associations representing a large part of the New Zealand's manufacturing sectors.



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Introduction

The Manufacturers Alliance is a collaboration between NZMEA, Plastics NZ, the Wood Processors & Manufacturers Association, the Maintenance Engineering Society of New Zealand and PRINTNZ. The Manufacturers Alliance combines the collective experience and expertise of a broad cross section of NZ manufacturers, with individual members encouraged to provide separate submission on aspects of particular interest and speciality.

Members share a common view that manufacturing can and is critical to Aotearoa New Zealand's economic success providing innovative strength and resilience. The post COVID market recovery, characterised by reversals in globalisation, significant disruption of international supply chains and rapid escalation in freight costs, we see our major trading partners prioritising local manufacturing and national resilience. Other countries are rapidly pivoting in response to the fundamental and longer-term economic shifts driven by climate change and "...developments in the international context" to protect existing employment, create new jobs, and ensure future economic growth. Intervention such as the EU's Border Adjustment Mechanisms are being used to ensure environmental bottom lines are protected and to more generally 'build back better'.

The transition to a low-emissions circular economy requires a strong local manufacturing sector, not only to make and implement climate mitigation technologies, but also to ensure that circularity can occur with the lowest carbon, solid waste and other environmental 'footprints'.

The lack of real action in support of New Zealand manufacturers is leaving NZ economically exposed. The NZ economy is export dependent. Our exports need to meet the country and customer expectations to be acceptable, with those expectations increasingly extending beyond issues of price to include intangible but measurable assurances related to carbon footprint and other environmental costs of production. It is essential that New Zealand's pathway to Carbon Zero 2050 is formed with local manufacturing in mind to avoid unintended economic damage to a sector that is critical for NZ's successful transition to supplying goods and services to higher value markets expectation of a low-emissions circular economy.

Developing a freight and supply chain strategy

Thanks to the Ministry of Transport team for initiating the journey to begin compiling a coherent freight and supply chain strategy for New Zealand's future.

"A more strategic and coordinated approach to the freight and supply chain system is needed to deliver change of the magnitude and in the time required, and in a system where the government is only one of many agents. "¹

The Manufacturing Alliance acknowledge the critical need for a strategic and co-ordinated approach to supply chain strategy in New Zealand's post COVID economic recovery. While government is "*only one of the many agents*"² we are surprised that the issues paper doesn't reference critical and overlapping work being done by other government agencies.

For example -

Ministry of Foreign Affairs and Trade carried out work on international and domestic supply chains in 2020 / 21.

¹ <https://www.transport.govt.nz/assets/Uploads/Freight-and-supply-chain-issues-paper-full-version.pdf>. p6

² *ibid*

Nor do we see links to strategic work being done by other government agencies whose strategies are dependent upon the efficient functioning of domestic supply chains. For example, the Infrastructure Commission's 30 Year Strategy receives only a partial mention - but only with respect to future population growth forecasts. The Infrastructure Commission consulted widely (with over 20,000 respondents) on Rautaki Hanganga o Aotearoa - New Zealand Strategy³.

The Infrastructure Strategy maps out New Zealand's infrastructure requirements for the next 30 years, the delivery of which will be dependent upon functioning and reliable supply chains. NZ's COVID 19 response required many agencies and others to hastily plug the gaps in critical supply chains created by the pandemic, for example the extensive subsidies enabling AirNZ to provide 'cost-competitive' air freight for perishable goods that would otherwise have been left stranded.

COVID has illustrated the risk to NZ of over-reliance on low cost and 'just in time' global supply chains. It has exposed the lack of economic resilience associated with reduced domestic manufacturing capacity; capacity that could have added value and durability / storage capacity at a time of global disruption.

The issues paper acknowledges the transport strategy fits with wider government goals, industry-led economic strategies, ongoing industry transformation plans, the delivery to the ERP, Adaptation plan and the transition to a circular economy. Regrettably, it lacks the detail providing any obvious cross-linking between overlapping government policy frameworks or references to collaboration between public agencies providing assurance of consistent and complimentary policy.

An effective supply chain strategy requires a finer grain of detail than is possible to provide in a Consultation Document. Without this detail the strategy is limited to discussion of generalities such as the need for freight and supply chains needing ".....to align with wider government goals, such as the goal of transitioning to a productive, sustainable, and inclusive economy." Regrettably the consultation document does not include specific proposals or clear preferences, for example expanding NZ's core electricity distribution grid as a precursor to greater electrification of road or rail transport. It notes other countries transport transition policies such as EU requirements for 'sustainable aviation fuel' without exploring the probable and practical response(s) NZ might consider in response. Of particular concern, it does not analyse the micro and macro-economic implications of signalled domestic and international shifts in transport, limiting its value as a document expected by the Minister of Transport, "*.....a crisp and clear strategy that goes beyond the interests of any one sector..... to identify the key directions that will serve New Zealand's collective interests in a fast changing and disruptive world*". It is essential that the current and future supply chain requirements inherent in delivery of government's own policy frameworks are listed and prioritised, ideally extending to include industry's needs to the extent they are known .

Recommendation:

That Ministry of Transport work across government agencies to connect up the supply chain needs resulting from respective government policies.

Ministry of Transport direct and support those government agencies to engage with respective sectors to get relevant industry detail.

³ <https://www.tewaihanganga.govt.nz/strategy/>

Magnitude of current supply chain challenges

The Consultation Document summarises New Zealand's current freight system / volumes and speculates on the future challenges to our freight transport system. The frame of reference appears to be “Business as Usual” notwithstanding the repeated commentary on national and international changes arising from climate change, geo-political tensions, and NZ’s interests contributing to the determination that a change to BAU transport is required. What is lacking is a clear extrapolation from global and domestic changes into the changes needed in NZ transport

The Consultation Document offers little guidance on the magnitude of the current failure in global supply chains impact on New Zealand industry and society more generally.

MA suggest the implications of current supply chain disruptions cannot be overstated, with astronomical increases in freight rates and the impacts of significant delays on industry feeding directly into today’s “cost of living” crisis. It would be unreasonable to expect a NZ Transport Strategy to guarantee to resolve all current issues but it should provide a clear articulation of the costs and benefits of logical options for change in order that policy makers have a clear understanding of the implications of different options.

Recommendation:

Ministers direct applicable government agencies to work with each industry / sector to determine optimal industries' specific supply challenges / needs. Comparing and combining those sector specific recommendations should enable the elucidation of “...the key directions that will serve New Zealand’s collective interests in a fast changing and disruptive world.”

Strategic context for change

The issues paper acknowledges the significant and increasing impact Climate Change is having on what New Zealand produces, our infrastructure and on global supply chains.

Consumer demand is already starting to influence buying decisions in favour of lower embodied GHG emissions. International trade settings now openly reflect consumer and local political interests in reducing the GHG cost of transportation. (eg EU carbon border adjustments, Sustainable aviation fuel mandates and mandated shifts in ‘short haul’ modes of transport).

It is logical and critically important that NZ’s transport strategy sets a clear path as to how New Zealand responds to these strategic shifts and realigns investment accordingly.

Recommendation:

Government to compare current productive focus on supporting a pastoral economy based on bulk commodity exports obligating higher per-unit of value GHG emissions with greater on-shore processing. The reasonable assumption is that local processing creates higher value products with lower embodied transport emissions when exported. The shift to local manufacturing for export would bolster regional employment and ideally utilise NZ’s renewably produced electricity, displacing the need for emissions from similar processing offshore.

NZ's export economy has evolved in recent times toward the 'efficient' production of every greater volumes of commodity food and other exports. There has been insufficient regard paid to the full costs of that strategy, as evidenced by increasing concerns with respect to GHG emissions, water quality and biodiversity loss. There is no discussion how transport networks and options should be configured as New Zealand builds resilience and high value employment in our supply chains and the economy as a whole. For example, New Zealand be encouraging investment in additional manufacturing capacity to reduce dependence upon off-shore supply, and particularly in products /services with low GHG footprints which are more strongly aligned with the vision of Pure New Zealand. Integrating the transport and "value-added manufacturing" strategies could see a focus on the manufacture of exports less dependent on a "just-in -time" supply chain and therefore less vulnerable to geo-political and other causes of instability in the transport supply chain.

The issues paper references that "about 90%" of New Zealand's building materials and products are imported"⁴.

This was not always the case and up until the 1990's New Zealand building and construction sector was well supported by local manufacturing, prior to the development of Chinese manufacturing capacity and trade policies geared to export / import trade flows favouring scale and cost over all other considerations. .

Recommendation:

Future freight and supply strategy to look in detail at the value created by local manufacturing to enable government policy delivery and the trade policy settings needed to underpin it(e.g. infrastructure, housing), as opposed to the current and future costs of relying on global supply chains.

Version control - to be removed before submission

Version	Date	Author	reason
V1	23 May	Nick	Initial draft responding to MoT Issues paper
v1.2		Murray	review and additions to document

⁴ <https://www.transport.govt.nz/assets/Uploads/Freight-and-supply-chain-issues-paper-full-version.pdf>. p12