



NZSC OGM 2019

May 7, 10.00am – 4.30pm

Club Mount Maunganui 45 Kawaka St, Mount Maunganui (with thanks to Zespri for assistance)

Preliminary agenda:

10.00am – 12.30pm Council business (Full members only)

12.30pm – 1.00pm Lunch – Full members and Affiliate members

1.00pm – 4.00pm Afternoon programme to include meetings with:
Upper North Island Ports strategy working group
Port CEOs group
Ministry of Transport
Road Transport Forum

Heads up: We will be undertaking a member survey in advance of the OGM to canvas key shipping issues affecting members.

Membership Update:

We welcome new member Bathurst Resources – represented by Sam Johnston.

Freight Futures 2030 conference (Conferenz)

24-25 June 2019, at the Grand Millennium, Auckland

The conference is billed as focusing on the development of regulation, funding and policy supporting New Zealand's "freight future". In addition to the above, the conference will also cover advances in areas such as business strategy, multi-modal logistics and freight technology.

Shippers Council members and affiliates will receive a discounted rate for the conference – full details including the conference programme will be forwarded as soon as available.

Contact us: Send an email to NZSC executiveofficer@shipperscouncil.co.nz

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In this issue:

Page Number	Article	Quick Link
3	Customs to begin enforcement of new Infringement offences	Click here to scroll down to article
4	Brexit uncertainty continues	Click here to scroll down to article
5	Trade Update	Click here to scroll down to article
6	Truck driver shortages impact shipping	Click here to scroll down to article
7	Cartel conduct set to become a criminal offence	Click here to scroll down to article
8-9	Biosecurity review in wake of Brown Marmorated Stink Bug threat	Click here to scroll down to article
10-11	Low sulphur fuels 2020 rapidly approaching	Click here to scroll down to article
12	International: Shippers groups seek end to the Block Exemption Regulation	Click here to scroll down to article

Customs to begin enforcement of new Infringement offences

The New Zealand Customs Service will soon begin enforcement of infringement offences, which were introduced as part of the Customs and Excise Act 2018.

Infringement Notices enable Customs to manage minor offending involving travellers, goods and craft in respect of 70 offences under the Act. These are minor offences that justify more than a warning, as an alternative to prosecution.

Following the Act's introduction on 1 October 2018, Customs allowed an educational period – but from 1 April 2019, Customs will issue Infringement Notices, with an instant fine of \$400 for an individual and \$800 for a business. To issue an Infringement Notice a Customs officer needs to have reasonable grounds to believe an offence has been committed.

Infringement offences are strict liability offences, which means the law may have been broken unknowingly or by mistake. Once the fine has been paid, all guilt or liability is discharged.

Full details about Infringement Notices including information sheets are available on the NZ Customs website at: www.customs.govt.nz/infringements2/

Brexit uncertainty continues

At the time of writing, there is still much uncertainty around Brexit. In the latest update, following a March 21 summit in Brussels, the EU and the UK have agreed on a two part deal that avoids a no-deal "cliff-face" exit on March 29, effectively pushing it out to 12 April at the earliest. All options remain on the table – a deal, no deal, a longer extension or revoking Article 50. Meanwhile the threat of trade disruption looms and shippers are advised to plan for all contingencies.

What we do know is that NZ and the UK have signed agreements that will help ensure continuity and stability in the regulatory arrangements underpinning our trade. However, it is important for shippers to consider the implications for their business of a full range of disruption scenarios and ensure they have contingency plans in place. This is particularly important for those exporting time-sensitive goods which may become stranded in short-term supply chain gridlock.

As you will be aware, the Council met with ICLC last year to open up lines of communication with the international shipping companies about the risks to NZ shippers of Brexit disruption, and to discuss how best to address and mitigate these risks. We determined that the key risk reduction strategy was for individual shippers to comprehensively assess their supply chains and to negotiate worst-case contingency arrangements directly with their shipping lines.

All NZSC members should have received links to some of the excellent preparatory material distributed through the government's inter-agency taskforce, including the series of seminars led by NZTE. This material is reproduced on the Shippers Council website. [Click here](#)

NZ government agencies continue to rigorously monitor and identify risks and mitigations. You are advised to stay vigilant, keep informed on the situation and ready to respond to changing circumstances.

Trade Update

Brexit

As per earlier article, one commentator has referred to the Brexit process post PM May's letter seeking a timing extension as being "as clear as mud." This is absolutely accurate.

At this point it is impossible to say whether the UK will be able to begin FTA negotiations with New Zealand.

The tariffs announced for a post EU import regime demonstrate that the UK has decided to go protectionist on agriculture should Brexit occur.

This is most disappointing.

EU

The last round of negotiations with the EU have demonstrated how difficult this negotiation is going to be. The EU is playing tough on agriculture. Exporters of agricultural products should be in contact with MFAT and MPI stressing the importance of a good outcome on agriculture and an expectation that New Zealand will keep negotiating until a good outcome is achieved. The EU position on agriculture demonstrates how dangerous talk about a quick outcome in this negotiation may be.

China

The PM is due to visit China as early as 1 April. This is a good sign. Both China and New Zealand are trying to avoid differences and tensions spilling over into the public domain. There is no evidence of any impact of Chinese displeasure at New Zealand Government actions on our trade relationship.

Pacific Alliance

No progress since our last report.

RCEP

No progress since our last report.

China FTA Upgrade

Don't expect much that is exciting.

Truck driver shortages impact shipping

The impact of truck driver shortages on the NZ supply chain is an increasing concern for shippers. Shortages are widespread and impact at multiple points along the supply chain.

The sector is but one of many under pressure and the situation is not improving. Government is currently working towards reform of both temporary work visas and vocational training – which together represent an opportunity to address systemic problems with the labour market. As a part of this, the Council, and many of our individual member organisations, are participating in consultation processes on a new approach to employer assisted work visas and regional workforce planning. We note that while the regional emphasis is positive, arrangements for transitioning to the new sector agreements will be critical. And while the far-reaching policy changes look promising, they will take time to come into effect. The road freight sector agreement is currently earmarked for negotiation in the first half of 2020 to be operational by the end of 2020.

Clearly this will not resolve the acute transport workforce shortages impacting shippers. NZSC has commenced discussion with the Road Transport Forum seeking opportunities to work together in this area by building a co-ordinated and quantified case of the regional impacts.

Cartel conduct set to become a criminal offence

Cartel conduct looks set to become a criminal offence in New Zealand after the Cartel (Criminalisation of Cartels) Amendment Bill passed the Committee of the whole House stage and is set down for its third reading. If passed, the Bill will come into force two years after it receives Royal Assent.

A Supplementary Order Paper (SOP) made some last minute changes to the Bill - most notably, that defendants who reasonably believed that any of the relevant exceptions to cartel conduct applied should not be criminally liable. However, the amendment has made it clear that the defence will not apply "if the defendant's belief is based on ignorance, or mistake, of any matter of law".

The Shippers Council submitted and presented to the Select Committee in favour of the Bill to ensure the strongest possible deterrent for cartel behaviour.

Biosecurity review in the wake of Brown Marmorated Stink Bug threat

Earlier this year Biosecurity Minister Damien O'Connor announced that he has asked Biosecurity NZ to investigate new ways of dealing with the increasing threat posed by the Brown Marmorated Stink Bug and other emerging biosecurity risks. He said that NZ must ensure the biosecurity risk is as far off-shore as possible and the Government will work with industry to ensure every part of the biosecurity system is bolstered so it is agile enough to deal with new threats as they emerge.

Minister O'Connor has requested Biosecurity New Zealand take a fresh look at the country's 4,518 transitional facilities to make sure they have the capacity and expertise to properly handle increasing numbers of imports in a riskier global biosecurity environment. "We will do what it takes to keep pests like the Brown Marmorated Stink Bug from establishing here" he said.

NZSC's view is that rigorous biosecurity measures are paramount for the long term future of New Zealand's trade. We are aware of the risk of significant disruption to the flow of goods and the costs to trade associated with safeguarding NZ from this pest and continue to monitor the situation closely. We welcome the review to ensure confidence that our border control authority is managing the issue efficiently.

Meanwhile in Australia 14 industry associations have called on the government to scrap its "reckless" and "unfair" biosecurity tax on maritime imports.

Scheduled to begin in July, the Biosecurity Import Levy will raise A\$10.02 per teu and A\$1 per tonne of non-containerised cargo, with the government aiming to collect around \$360m over three years. The tax coincides with increased supply chain disruption due to Brown Marmorated Stink Bugs.

Acknowledging the need for strong biosecurity, the industry groups claim the tax in its current form is flawed and should be removed from the 2019 budget. They say the current proposal "fails to recognise the damage the levy would do to the competitiveness of the freight supply chain, key export industries and the cruise sector, as well as the higher costs for consumers".

Following sustained industry criticism since the tax was announced in 2018, in February the Department of Agriculture and Water Resources began an industry steering committee it said would allow the industry to help design the levy. But with the committee lasting only a few weeks and the tax set to begin in July, the process is seen as being rushed with inadequate time to implement reforms. "

The stink bug season, which runs from September to April, has seen considerable supply chain disruption in Australia following several instances of vessels requiring fumigation. According to

the Freight & Trade Alliance, the resulting cargo delays have cost the industry “hundreds of thousands of dollars”.

They say that the direct costs to stevedores for storage and in detention fees to shipping lines for the late return of unpacked empty containers are rapidly escalating, adding salt to the wounds for importers failing to meet supply demands.

Low sulphur fuels 2020 rapidly approaching

There is now less than nine months until the International Maritime Organisation (IMO) regulation on the sulphur content of bunker fuels kicks in. Some shipping companies will install scrubbers to ensure compliance with the sulphur cap, but the vast majority of the global fleet will have to sail on low-sulphur fuel.

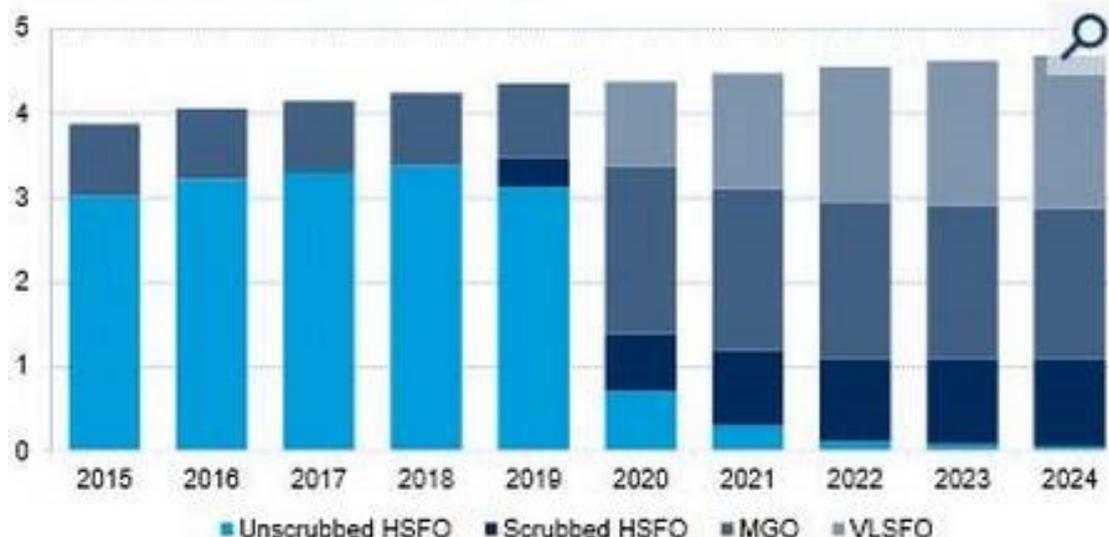
For those not across this issue, from January 2020 new rules from the IMO will limit sulphur - dioxide emissions from vessels. Previous NZSC newsletters have detailed this issue and its implications for NZ shippers and we devoted a significant portion of our 2018 AGM and subsequent Strategy day to consideration and discussion with industry as to New Zealand's readiness for low sulphur fuels. We note that NZ is still yet to sign up to the MARPOL treaty that contains the sulphur emission rules (see below), however over 96 percent of international maritime trade is carried on ships registered to IMO member states that have already acceded to the treaty, including all ships involved in New Zealand's international trade.

While uncertainty remains around the new low sulphur fuels landscape it is clear that there will be extra cost for shippers as shipping companies recover the cost of switching to the more expensive low sulphur bunkers or refitting their vessels with scrubbers. Industry observers project that this extra cost could reach USD 10-15 billion for the industry overall.

The International Energy Agency (IEA) reports that the low sulphur regulation is expected to increase demand for diesel and reduce that for high-sulphur fuel oil (HSFO), raising the prospect of a spike in diesel prices and a drop in HSFO prices, which could have broader economic ramifications beyond oil product markets. The regulation may provide an illustration of how changes in product demand can send ripples through the refining industry and then through the wider energy system.

The graph overleaf shows the IEA's projections for the use of high sulphur fuel (light blue), high sulphur fuel cleaned with scrubbers (dark blue), marine gas oil (dark gray) and low-sulphur fuel (light gray).

Figure 1: IEA marine bunkers product demand outlook (millions of barrels per day)



Source: IEA

Drewry reports that variable fuel charges have come into play this year, noting that carriers are making few offers for all-inclusive fixed rate contracts longer than 6 months this year and are pushing shippers to accept, instead, contracts with variable fuel charges due to the huge IMO 2020 cost uncertainty.

As previously signalled, one of the potential effects of the higher costs could be an increase in slow steaming among shipping companies in an effort to keep overall costs down.

Note. Earlier this year the Ministry of Transport opened public consultation on whether NZ should accede to the MARPOL Annex VI treaty. The Shippers' Council has submitted strongly in favour on the basis that as a nation dependent on international trade NZ must be actively involved in all negotiations that might impact this trade and in order to do so effectively it is important that we are treaty signatories. We also argued that the way the world views New Zealand is critical to our success in international trade. Our products must continue to be seen as being of the highest possible integrity. Not ratifying this treaty risks damaging our international image. All our major trading partners are party to the treaty. We should be too.

You can view the Council's full submission [click here](#)

International:

Shippers groups seek end to the Block Exemption Regulation.

Opposition is steadily mounting to extension of the European Block Exemption Regulation, BER, which allows for cooperation between container shipping lines that otherwise compete against each other. The exemption applies for five years at a time and is set to expire in April 2020. The EU Commission has to decide what happens to it then.

As the rule stands now the BER only applies if the combined market share of the consortia – measured in total volumes – does not exceed 30 percent. This threshold can be exceeded within a two year period but for no more than one tenth of the time.

The World Shipping Council has made a strong call to the Commission as it seeks approval for another five-year extension arguing that if the regulation comes to an end, it would reduce service quality, as the shipping lines – without consolidation – would have to reduce the number of services to maintain utilisation rates. It says that the possibility of using slots on each other's ships with vessel sharing arrangements is crucial for the container shipping sector.

"Vessel sharing arrangements are essential tools for providing efficient, environmentally responsible, and frequent liner shipping services to countries all over the globe. WSC and its members and industry association partners will continue to advocate for regulatory structures that support the dependable, predictable liner shipping services necessary to move the world's international trade," writes WSC in a press release.

However, WSC faces stiff opposition. A host of associations, including the Global Shippers Forum, forwarders, ports, barge and tug operators have joined forces to urge the European Commission to repeal the regulation, arguing that the BER is now obsolete.

Their argument is that BER is a "generous exemption from normal competition rules. Market developments which occurred over the last five years including the liner market concentration – either via mergers or new alliances – has created a negative environment for their businesses and their customers, and justify an in-depth review of the regulatory framework. A recent report from the International Transport Forum (ITF) concluded that "the impacts of alliances on the containerised transport system taken as a whole seem to be predominantly negative".

The associations have jointly concluded that the European Commission should repeal the BER unless a revised regulatory framework clarifying the current legislation is adopted.

The ITF has also taken a closer look at the 30 percent limit in the BER and concluded that only a few of the consortia operating on European trade routes fall below the required threshold. This means that the majority of the consortia are not covered by the BER so "raises the question of how to justify a regulation that no longer applies to the large majority of consortia" says ITF. ITF also point to the difficulty in establishing with absolute certainty whether consortia fall within the threshold because of the lack of publicly available data.