

**Transport New Zealand Summit
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Introduction

Good afternoon, ladies & gentlemen, and thank you for the opportunity to speak to you today.

I'm here to discuss 'The Role of Ports in Developing an Integrated, Intermodal Freight Transport System for New Zealand'.

I understand that the audience was a bit quiet and exceptionally well-behaved yesterday, so I have decided to make a few statements that are meant to trigger a discussion and / or a reaction.

Presentation outline

I'll start with re-capping a bit of history and the major trends in international shipping and what they mean for both New Zealand's port sector and for 'New Zealand Inc', including exporters and importers.

There are some very significant issues facing New Zealand as the global recession drives structural changes to the international shipping industry.

So, I will share my views about what New Zealand needs to do in response, so that we are positioned the best we can be in global markets.

In particular, there is a need for better-informed and better-coordinated national decision-making about infrastructure, strategy and investment.

If New Zealand is to lift its productivity and increase its competitiveness in global markets, we need to prepare ourselves properly for the changes that are coming.

If we do nothing and carry on with the same old ways, it will be Australia Inc and possibly others who will, in effect, make these decisions for us.

New Zealand must necessarily take charge of its own destiny.

I'm very concerned that some decision-makers in this country tend to forget the fact that the New Zealand port sector is competing internationally, and that parochialism will take priority over sensible medium- and long-term planning that should assist New Zealand and New Zealand Inc to position itself internationally.

We are at a cross-roads.

The Minister's comment yesterday that a 20-year National Infrastructure Plan will be forthcoming is very reassuring indeed.

History of international container shipping

In order to determine what needs to be done, we need to understand how we came to be where we are today.

The containers you see on ships, trains and trucks – and the cargo inside them – are central to the global economy.

Containerisation began with one ship and one man in 1956, when American trucking entrepreneur Malcolm McLean put 58 containers aboard a refitted tanker ship and sailed them from Newark to Houston.

It was a simple concept, but one that catalysed phenomenal changes in freight movement around the world.

In New Zealand, the first containership called in 1971 – just 38 years ago.

Today, approximately 90% of non-bulk cargo worldwide moves by containers stacked on transport ships.

Non-container developments

Now, in comparison, the conversion to containers has meant non-containerised shipping has not grown significantly over the medium to long term, the exceptions being the car trades and of course the cruise business, both being of vital importance to this country's economy.

One obvious example for New Zealand is our refrigerated cargo sector. As recently as the mid-1990s, the majority of this cargo was carried by conventional refrigerated bulk carriers – whereas now, our dairy, meat, fruits, vegetables and other refrigerated products are all transported using refrigerated containers or 'reefers'.

And we're now seeing manufacturers stop producing 20-foot reefers in favour of the 40-foot 'hi-cube' version.

With the growing popularity of 40-foot boxes, we estimate that there is now one 40-foot container for every 1.4 20-foot box that arrives in New Zealand.

So, with more and more cargoes moving to containers, non-containerised shipping is largely limited to bulk cargoes such as coal, grain, fertiliser and logs.

We are even seeing a trend towards shipping logs in containers. Last year, Chinese demand pushed charter rates for bulk vessels so high that shippers converted logs into containers.

Our own Ministry of Agriculture and Forestry is predicting that, because of shipping issues, by the middle of this century, bulk log exports from New Zealand will be non-existent, with wood-based products exported in containers instead.

New Zealand shipping & port trends

As a small and relatively isolated country, where trade is central to our economy, these trends have significant implications for New Zealand.

Over the last eight years trade has equated to more than 40% of GDP.

And seaports are noticeably dominant, accounting for more than 80% of total trade by value and a whopping 99% in terms of weight.

Every decade since the 1980s, shipping volumes have doubled in New Zealand.

And between 2004 and 2008, the average growth of container volumes nationwide was nearly triple that of national average GDP.

Last year [*FY ending June 2008*], New Zealand handled 2.36 million TEU.

This growth – along with inter-regional competition – has seen New Zealand ports put in \$1.1 billion of capital investment since 1997.

But our return on assets has fallen.

At the same time, most of the big international shipping lines are either barely profitable or not profitable at all, and are looking to strip costs from their operations.

And this has driven rationalisation amongst the major shipping lines.

The 20 major shipping companies that visited New Zealand in the early 1990s have now basically developed into eight mega shipping conglomerates.

These lines are now also working smarter with vessel sharing arrangements or 'VSAs' – similar to airline code sharing – that ensure ships visiting this part of the world are as close to capacity as possible.

This pressure on the bottom-line is also seeing an increasing trend of rationalisation to hub-and-spoke distribution, meaning fewer port calls and larger vessels.

For example, the size of container vessels calling New Zealand has quadrupled from 700 to 800 TEU in the 1980s to approximately 3,000 TEU today.

And the trend is continuing, with the average new ship on order exceeding 6,000 TEU, and some ships even topping the scales at 14,000TEU.

Compare this to the largest container ships visiting New Zealand today, at 4,100 TEU.

We expect that the next generation of container vessels plying the waters to New Zealand will be the 5,500 to 6,000 TEU type. Once introduced, these ships will be able to cater to our needs for the following 10 to 15 years.

And, we are already beginning to see the reduction in port calls and an increase in trans-shipments, and when the larger ships do arrive, this trend towards loading more 'international' cargo at fewer ports will intensify.

Perhaps, it is time to stop for a moment or two and evaluate whether some of the principles and initiatives that international shipping has embarked upon could be adopted by New Zealand Inc? It's about keeping unit costs down and plan capital expenditure spend in the most optimal manner.

Port investments

Ultimately, the move towards larger vessels puts tremendous pressure on New Zealand ports' infrastructure, and that has spurred ports to invest heavily in capital improvements.

Ports are by nature highly capital intensive, focusing on maximising efficiency and productivity.

For example, a crane can cost anywhere between \$10 and \$15 million, and a hybrid diesel/electric straddle carrier, around \$1.5 to \$2.0million.

While nationwide, containerised cargoes have increased 2.5 times since 1997, New Zealand ports' combined revenues have increased by only 1.37 times, with EBITDA up 1.49 times.

So real unit revenues and EBITDA have materially declined.

This of course makes it difficult to continue to invest at the levels that the New Zealand port sector has been for the past decade.

This situation presents a particular challenge for the smaller ports which lack the scale to justify large-scale investments.

New Zealand trade volumes (imbalance)

[Map shows import / export / trans-ship volumes for all New Zealand ports and market share percentage for top five, for FY ended June 2008]

Compounding the problem is the significant imbalance of volumes between New Zealand's 11 container-handling ports.

As you can see from the map, there is a real imbalance between the number of imports and exports handled at many ports. This leads to a high number of empty containers needing to be re-distributed around New Zealand to be filled up with export goods.

In fact, around 30% of all containers leaving or coming into a New Zealand port are empty.

This is an inefficiency that costs New Zealand's entire supply chain dearly.

The ideal situation? The fewer empties the better!

There are gains to be made. But we'll never get a perfect balance between imports and exports.

The nature of our agrarian economy and the spread of our main production centres mean this is unrealistic. New Zealand is unique in this regard.

As a small island nation, we've developed a primary industry-dominant economy based on shipping and trade.

As a result, we have 11 ports that handle containers to some extent, whereas Australia has just 5 major container ports.

Port rationalisation

But these trends in international shipping mean New Zealand simply CANNOT carry on as it has been for the past decade.

The benefits of port sector rationalisation and consolidation are widely recognised – reduced capital expenditure duplication, operating overheads and so on.

This, and enhanced service for cargo owners, would go a long way towards improving the financial performance of the port companies.

The hub-and-spoke trend means there will emerge a clear hierarchy among ports, with the smaller ports gradually becoming feeder ports, while larger ports will service the bigger ships on international routes.

Growing vessel sizes means there are natural physical restrictions on the growth of some ports, such as Nelson, Timaru, Bluff, and Taranaki.

The larger vessels will also only visit the ports capable of making the investment required to accommodate them...

So, this hierarchy will evolve naturally, I think.

Now, the move towards a smaller number of international seaports does not mean the other ports will wither and die – just as having two primary international airports didn't spell the end for smaller regional airports.

Ports can operate on a similar model – rationalisation will not be about the number of ports but about how each port, or combination of ports, is best used to

create value and an efficient supply chain that benefits the customer and New Zealand Inc as a whole.

And, smaller ports servicing local industries will still be in a position to exploit the competitive advantage of being on the spot.

They will also be free to choose opportunities that the ports focussed on larger volumes may not consider worthwhile.

The move to this framework will also help address the capital overspend that has been occurring over the past decade, as port operators compete with each other to secure contracts with a dwindling number of shipping lines and the stakes getting higher and higher.

Intermodal logistics

Now, in order to cope with this structure, New Zealand Inc will need stronger strategies in place to support transport and infrastructure needs outside port gates.

An inability to handle growing loads brought in by ships was what forced the USA's west coast ports to come to a grinding halt in the 1990s.

The terminals were resourced to handle and work 6000 to 7000 TEU vessels – but the supporting off-port infrastructure was not, and a major gridlock soon developed.

There is a real risk this could happen here with larger and larger vessels calling into New Zealand ports.

At the moment, freight is too reliant on our road networks – a whopping 92% by weight according to last year's National Freight Demand Study.

Rail accounted for only 6%, while coastal shipping was just 2%.

There is a vast under-utilisation of our rail and sea freight modes, and the connections between the various modes of transportation are inadequate.

The reliance on roads means New Zealand's supply chain is particularly exposed to congestion.

There are also the hidden costs of 'carrying air' in empty containers, as mentioned earlier.

Together, this inefficiency costs the entire supply chain and someone foots the bill, be it the importer, exporter, the shipping line and ultimately the public. More often than not, the bill is picked up by New Zealand Inc.

But port operators, as the first and last link in the chain for goods coming into and leaving the country, can also play a more active role in enabling greater efficiency through cargo consolidation.

A number of New Zealand port operators have already started using the concept of inland ports, which are used to great effect throughout Europe.

The concept of inland ports is something we think is worthy of further exploration in other parts of the country – particularly around those ports that will in the future service the larger vessels.

Sophisticated freight management systems can then also be used to enable the supply chain to reduce the number of vehicles that would otherwise leave port with empty containers, ensuring a win-win for all parties in the supply chain.

Future freight requirements

New Zealand is a unique economy. Our primary production sector, for example, which is highly reliant on an efficient and cost-effective supply chain, contributes around 65% of our country's total exports.

In order for our businesses – our country – to remain competitive, it is crucial that New Zealand has an integrated supply chain that is efficient, cost-effective, reliable and flexible.

We have a way to go.

New Zealand first needs better insight into the dynamics of our trade flows, and this then needs to support a strategic framework that works to ensure an optimal mix of rail, road, coastal shipping and air and sea freight.

The National Freight Demand Study was an important step in this direction, but the study was just a snapshot in time.

New Zealand needs ongoing data to establish a clearer understanding about where our national supply chain links falter.

While it is positive to see the Ministry of Transport recently become lead policy adviser on rail transport issues and funding, there remains a high level of inefficiency and fragmentation within transport infrastructure governance.

It is very pleasing to note the Minister's comment yesterday that the Government wants "to encourage an environment where Rail can operate as efficiently as possible with strong commercial imperative to provide the greatest benefit to the New Zealand economy".

More and more countries are adopting a multi-modal, whole of supply chain approach in their infrastructure network planning.

If we do not, there is a risk that New Zealand will slip further behind, depriving our economy of billions of dollars per annum.

Already, the World Economic Forum recently rated New Zealand a lowly 42nd for liner shipping connectivity, and 43rd for road and rail infrastructure.

By contrast, Australia was 31st for liner shipping connectivity, 22nd for rail, and 25th for roads.

As always, there's a limited pool of funds to develop our supply chain infrastructure, but we can do much more to derive optimal usage from what already exists.

And any future investments will need to take a multi-modal perspective.

Within this approach, a leaner, greener supply chain – which is of course so crucial for New Zealand, with its distance from global markets – should also emerge.

Future of 'New Zealand Inc'

I have mentioned Australia a few times so far. It represents a very real risk for New Zealand in terms of the trends we have touched on.

Australian ports such as Brisbane or Melbourne are investing 'hand over fist' in their infrastructure, backed by state and federal government funds.

Last year, the Australian Government announced an AUS \$20 billion infrastructure package that included significant funding for port-based projects.

This year's Australian budget has since outlined at least \$389million in port-related spending.

What is most worrying about this is that, with the trend to hubbing, New Zealand could very well end up as a spoke to Australia, rather than a hub of its own.

Unless we as a country prepare ourselves properly, we might find that the major shipping lines decide to call at Sydney, Melbourne or Brisbane, instead of New Zealand.

The resulting reliance on trans-Tasman shipping to connect with global shipping services could have a devastating effect on small and medium sized businesses – the lifeblood of our economy. When I met with some 30 dairy shareholders the week before last, they were absolutely horrified at this prospect.

Obviously, having to rely on trans-Tasman shipping would mean longer and more costly routes to get goods to market.

Our exporters would also be competing for space with Australian exporters and importers.

And consumers in New Zealand could face paying more for even the most basic of consumer goods.

I don't think we want to see that happening.

Conclusion & questions

In conclusion, if New Zealand is serious about lifting productivity and increasing competitiveness in global markets, I believe we must create a more efficient supply chain.

While individual links in the chain can play their part, we will require a 'whole-of-supply-chain' approach, and a level of alignment not previously seen.

In this, the Government's overarching strategic framework is vital, driven by more comprehensive data and understanding.

Likewise, as port and transport sector operators, we have a defining role in New Zealand's global trade efforts – and a crucial role in supporting New Zealand's economic growth.

We need to be above parochialism, to look beyond our own respective patches.

When it comes to New Zealand's future well-being, we're all on the same side. We will need to learn to cooperate better.

New Zealand's future depends on it.

Thank you.