



A City Port in a Super City

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Welcome & Introduction

- As Chairman of Ports of Auckland, it's my pleasure to talk with you today about the future of our Port within Auckland's Super City
- With the 30-year spatial planning well underway, there's a lot now riding on Auckland's future developments
- The planning process has sparked debate about the Port's economic role and location
- Some people want the Port's city business shifted and the area transformed

Myths and Facts

- *There are many myths of course, so let me start by summarising some of the facts*
- If we were starting again the Port's current location is obviously not the "best spot" on the map, but we don't have a blank sheet
- If POAL's business was transferred to Tauranga, that port would reach capacity in around 10 years, thus the idea of closure and transfer to Tauranga is impossible
- According to a recent study by Market Economics, if the Port was to go, by 2031 (*under the growth targets in the draft Auckland Plan*), our regional economy would be around \$2.9bn smaller annually (excluding any uplift in the Port's capital value and the annual dividend flow)
- This is equivalent to 38,000 jobs
- With total freight turnover in the upper North Island expected to grow by 75% over the next 20 years, both Auckland and Tauranga will have reached their total capacity by 2031 (after planned capacity expansion)
- A BECA Consultants study (1999) into alternative port locations in the Auckland region ruled out all potential options based on cost and environmental factors
- But even if there was a viable site, we estimate it would cost \$2.4bn to replace the asset today (net \$1.5bn after sale)
- We've released 50% of our footprint to the City and are now doing more with less
 - "Dumping" another 70 hectares of land for development in Auckland would not be productive nor economic (it's not feasible to give up half or a quarter of the port)
 - And, there are concerns as to Auckland's ability to absorb this on top of the land

- already available for development
- I've seen estimates that show Auckland has sufficient capacity to accommodate retail and office expansion until 2025, and the City Centre Masterplan suggests the intensification of Newton (alone) will accommodate 75% of total CBD resident population growth over the next 20 years
- City ports like Auckland are not unusual
 - Many major cities have a port close to the city centre – Tokyo, New Jersey, Seattle, Genoa, Stockholm, Naples
 - In fact 40% of the world's ports are located within 3Km of the city centre, with 80% within 10km of their CBD – please remember this when thinking of Tauranga and Whangarei
- What we should be (are) doing right now is
 - Taking advantage of our port being so close to consumers and shippers
 - Squeezing as much capacity as we can out of the existing port zone
 - Operating the largest container port in NZ with best:
 - practice
 - customer service
 - and efficiency
 - Also, identifying what and when extra port capacity is needed in the upper North Island, and where will it come from
- We need to be tackling this future capacity constraint soon. Past experience shows that a 10-15 year lead time may be required (Note: the Western Ring Route and Third Harbour Crossing have been on the drawing board since the middle of last century)

Critical Economic Hub

- Auckland is the country's largest commercial port by a substantial margin
- In 2010 its role represented
 - \$12.5bn direct/indirect economic value "facilitated" by the Port, sustaining 187,300 jobs and supporting 22% of Akld's economy
 - \$21.5bn value facilitated NZ-wide including sustaining 336,200 jobs
 - That's 16% of NZ's GDP
- We've contributed over \$500M in dividends to the region since de-listing from the sharemarket (including in specie dividend and transfer of Wynyard Quarter)
- In an average week we handle 30 commercial vessels, 1,500 visits each year
- Last year POAL handled nearly a third of New Zealand's trade by value – some \$26.4 bn – nearly 900,000 containers (TEUs)
 - More than Tauranga, Northport and Lyttelton combined (and more than Tauranga and Auckland Airport combined)
 - And, non-containerised cargo volumes were up 24% to 3.5m tonnes
 - We handled 36% of the entire New Zealand container market
 - 60% of the upper North Island market
 - \$16.8 billion (CIF) in imports – that's 51% of sea imports and 40% of NZ's total (of these, \$12.1 billion are intermediate inputs, further processed or manufactured in Auckland or elsewhere, sometimes for re-export)
 - \$9.7 billion in exports, making Auckland the largest container export port in value

terms (25% of sea exports by value, 30% of sea exports by volume)

- In the 2011 season the cruise industry is forecasting around 100 ship calls, which will generate \$180M of direct expenditure in Auckland. This will generate an extra \$70M of value add and over 1,000 jobs
- The Auckland region's population is set to grow by an extra 1 million people over the next 20 years, as will the volume of trading activity. The Port will play a central role in servicing this growth
- To manage growth effectively and efficiently - we need to protect the Port, enhance its capacity (through intensification and smart work practices) and collaborate more with Tauranga and Northport in Whangarei
- The reality is all three ports are needed to meet future demand, and all need to increase capacity
- There have been enough events recently in NZ to show that an "all eggs in one basket" approach is not worth the risk

A part of the Auckland way of life, since 14th Century

- The city-wide RWC 2011 opening celebrations were a proud, historic moment for all of us; an opportunity to show the world our magnificent harbour location, diverse culture and heritage
- Since Maori first arrived in 1350 the waterfront has been a hub for trade. And, with European occupation in the 1800's, the Port has developed hand in hand with the Auckland community and New Zealand economy

A 21st Century Port

- Ports of Auckland's situation today is similar to most other international Ports
- We are very dependent on trends in international shipping and global trade
- The container shipping industry is intensely competitive
 - Dominated by a few large shipping lines
 - The top five account for almost 80% of NZ market (20 lines in early 1990's)
 - Consolidation has increased their bargaining power, and
 - They're building larger vessels ahead of demand
- This has led to overcapacity, weak freight rates and declining financial returns
- Shipping lines are seeking efficiency gains and improved returns through
 - Trend towards larger ships hubbing at fewer ports
 - Improved capacity utilisation and vessel sharing agreements and squeezing port charges
- Internationally, Ports are responding by:
 - Greater consolidation
 - Moving from public to private ownership
 - Developing efficient inter-modal linkages
 - Involving shipping companies in container port ownership
 - Investing in technology & infrastructure

New Zealand Ports

- The current structure of NZ port sector is relatively fragmented compared to the rest of the world
- This means individual ports are commercially “squeezed” between well-consolidated larger exporters and international shipping lines and consortia
- NZ has 16 ports in close proximity, with 11 competing for international container trade
- By comparison, Australia ships 2.4 times the number of containers through six ports, and the average distance between ports is four times that of New Zealand
 - Holland, with over 16m+ people has one major container port; France, two ports for 65m+ people; and two in the UK for 62m+ people
- Australia is now making substantial investment in port infrastructure with possible longer term implications for NZ’s competitive position (can we afford to have cargo trans-shipped through Australia?)
- In physical trade, we still suffer from a tyranny of distance, and represent only 0.2% of global trade. Although NZ’s largest container port, Auckland is ranked 109th in the world
- Our exports are highly seasonal i.e. lumpy reefer volumes through the year. This makes it difficult for shipping lines to use larger vessels on the NZ trade
- However, we’re efficient in comparison with similar size ports around the world
- But with increased competition reflected in lower margins, return on capital / investment in new capacity is constrained

Remaining Internationally Competitive

- Maintaining NZ’s international competitiveness against these issues and trends, requires a well-co-ordinated, complete supply chain approach to optimise the existing port network, and support future investment in new port capacity and transport infrastructure
- We need to accept that our size, volumes and location requires a plan which accounts for our special characteristics
- Several Government-led initiatives underway (Productivity Commission / Modes of Transport studies) to review port productivity will help bring some useful information to the planning table
- After looking at successful infrastructure projects around the world, clearly strong leadership is needed to resolve the issues moving forward
- In the past, I’ve been exposed to some very different approaches to infrastructural ownership and governance:
 - Democracy (in NZ, UK and Spain)
 - Free market Hong Kong’s
 - People’s Republic of China
 - The Soviet Union, and
 - Singapore

What would the benevolent dictator, Lee Kuan Yew do?

- It goes without saying Lee Kuan Yew would have made Auckland a Super City a long time ago, with
 - Electronic road pricing
 - Bridges / tunnels / railways
- With too many deep water ports in New Zealand, he would:
 - Know that NZ needs an efficient hub and spoke port network
 - Consolidate ownership to one hub for the North and one for the South
 - Maximise the capacity of Auckland and Tauranga, but plan for the future
- With anticipated growth, particularly in the upper North Island, Lee would know that consolidation is not about a reduction in the number of ports, but how each port, or combination of ports is best used to create value and an efficient supply chain for customers and NZ as a whole
- Lee would protect and grow the coastal shipping service – leveraging the most cost effective transport system of all
- he would know what's good for Auckland in the long term, including ensuring it uses its existing land capacity efficiently, and keeps future development in step with demand (Singapore is about the same size as Auckland)

The Rena Incident

- I commented earlier about the risk of putting all our eggs in one basket
- The Rena incident highlights the need to ensure resilience in the upper North Island port network to safeguard international trade
- Many “armchair experts” have given us their ideas about how this could have been dealt with earlier. But no-one I've spoken with has been critical of the process we've seen
- Any review of the incident is likely to address two key questions:
 - How to prevent an incident like this happening again?
 - How to improve our readiness to respond to similar groundings, and environmental consequences in future?

Extending Future Capacity

- Recognising the long lead times in NZ for infrastructure investment, NZ needs to focus soon on building future capacity for when Auckland and Tauranga are full
- We've looked at our options and there are no other feasible alternative sites close to Auckland without major environmental factors and costs involved, including investments in rail and road
- Whangarei has significant capacity for expansion AND would be a great location from a

- shipping perspective, with minimal route deviation for Australia / Pacific / American trade
- BUT this will require a major investment in rail
 - Betuwe line between the German border and Rotterdam is 160km long. It cost the Dutch government \$4.5bn Euro to build, plus an annual operating subsidy
- Developing Whangarei would also require an efficient coastal feeder service. This is easier said than done. There are cabotage complications, including reversing a 2005 legislative decision

Making the Most of a “Working Port” in a Vibrant Global City

- Here in Auckland we need to make the most of what we have
- POAL has invested heavily in the most advanced port infrastructure in the country
- We have introduced significant changes in operations and labour structures to work smarter, faster – now able to do a lot more with less
- In future new technologies such as automated crane stacking systems have the potential to more than double existing port capacity, especially during periods of peak demand
- We have no plans to extend beyond the current port zone; mainly reconfiguring what we have in the area already tagged for development by the authorities
- This will provide for expansion of the Bledisloe and Fergusson wharves for new, larger vessels
- Extending the length of Bledisloe to accommodate two ships at once will allow us to release Captain Cook for public redevelopment within 10 years

A Working Port in Auckland’s Future

- For many people, the opening of the Wynyard Quarter – and the RWC fanzone on Queen’s Wharf – has captured what Wellingtonians have known for ages. There’s value, colour and character living alongside a working port
- To sum up: a relocation to Tauranga would be impossible - that port would reach capacity in around 10 years – and there are no other viable locations nearby
- Ports of Auckland is essential to Auckland’s future economic growth, facilitating \$2.9B annually, and 38,000 jobs
- In reality, Auckland, Tauranga and Whangarei will all be needed to meet projected freight demand, and all three will need to increase capacity
- With further investment and innovation, Auckland and Tauranga can absorb more capacity than people imagine
- And, development of Whangarei offers a longer-term option to meeting expected growth in the upper North Island
- But, I mean long term. This will require significant investment in rail and road connectivity
- Suggestions we should move the Port simply don’t stack up under scrutiny and the weight of proper analysis
- Ports of Auckland is committed to working closely with the Auckland Council to make a working port an integral part of the world’s most liveable city, and to playing a business and

community leadership role well into the city's future

- On that note – I want to share a video produced for Westport's Group in Asia, which offers a glimpse of what our business might be like in 20-30 years time

Background Information on Richard Pearson

- BCA, Victoria University, Wellington.
- Joined Ceramco Group (date) as Accountant, before moving to a start-up Container Port of Kwai Chung (HK) - now in the top three largest container port operations in the world.
- Continued to work for that port's owner, Hutchison Ports Group, for 35 years in Financial & Executive directorship roles in Hong Kong & London.
- Responsible for acquisitions & port development projects in Hong Kong, China, Holland, UK, Spain, Poland and S.E. Asia.
- Hutchison's portfolio of ports grew from one to over fifty ports in 25 countries during the time he was there.
- Chairman of Wellington Electricity.