

National Infrastructure Unit

From: Jo Cavanagh [JoC@portofnapier.co.nz]
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The Executive Director
National Infrastructure Unit
The Treasury
Wellington

The following are further submissions regarding the National Infrastructure Plan – Facts and Issues Paper, and should be taken as trying to support and help the development of a proposed plan. Port of Napier Executives are more than willing to meet with the Infrastructure Unit to further highlight the issues and facts raised in the individual sections commented on below. It is equally important to understand that there appears to be significant comment around the container terminal activities of Ports which in general account only for some 40% of New Zealand's overall seaport trade. Over reliance and analysis of the container terminal trade fails to recognize bulk and break bulk cargoes handled within the New Zealand economy and the facts and issues paper should clearly acknowledge and recognize the future importance that this section will have on future port infrastructure and development.

Section 122: Seaport Throughput Statistics

We wish to highlight issues regarding NZ port statistical data accuracy and integrity as collected by Statistic NZ (SNZ); the Port of Napier has been in discussions with SNZ and Customs over the last 12 months to try and resolve this critical issue due to the base concern that SNZ data has becoming increasingly less accurate over time as per the following examples.

The principal issue is variable collection methods e.g. imports being 100% allocated to the first port of call in NZ, rather than the actual amounts discharged at each subsequent port in New Zealand.

Another import example applies to oil products whereby Whangarei is recorded as the point of entry for most of NZ's oil imports. While this is obviously due to the co-location of the Marsden Point refinery, the meaningfulness of such information is limited. For official use of such information (i.e. Government policy making) purposes, it is the final port of import (as moved by coastal shipping) close to its actual point of consumption which provides the most accurate indicator for any infrastructure requirement.

- Port of Napier audited number for the year to Sept 30 2009 Petroleum Products: 278,287 Metric Tonnes (includes 98,307 Metric Tonnes of direct imports from overseas i.e. not via Marsden Point)
- SNZ number attributed to Napier for the year to Sept 30 2009: 181,914 Metric Tonnes

Furthermore, where goods do not touch land and or/their only point of contact with land based infrastructure is a port, then great care needs to be taken when using SNZ statistics e.g. a high proportion of oil exports attributed to say the Port of New Plymouth are collected directly from their source in the Taranaki Bight and do not touch land. Their impact on land based infrastructure is very limited; the same can be said for oil imports refined at Whangarei which are then distributed coastally to a number of other NZ ports.

An export concern is the trend - mostly for containerized goods - whereby data is apportioned to the last NZ port call and not the conventional approach which is where the cargo is physically first loaded e.g. exports are loaded in Napier but the shipping service may then call next and last at another NZ port. Again for official use of such information (Government policy making) it is the initial port of export that is the more accurate indicator, being its physical origin of production and its consequential impact on infrastructure. But one case in point is Apple and Pear exports:

- Port of Napier audited number for the year to Sept 30 2009: 162,763 Metric Tonnes
- SNZ number for the year to Sept 30 2009: 121,857 Metric Tonnes

The inaccuracy issue has developed because of changes in international container shipping services within NZ over the last 4-5 years. Shipping lines are using international vessels to coastally move containerized cargo to another NZ port where it may be transhipped onto another international container shipping service for ultimate export from NZ. The ultimate port of export is being credited with the value and volume of those transhipped goods.

If the principal purpose of SNZ data collection is as a foci for Governmental use, then what degree of confidence is there in collected data? On a like for like basis in the 2007 year as highlighted in the Facts and Issues paper, Napier total tonnage throughput is understated by some 16% (audited result 3.05m Tonnes vs. SNZ figure of 2.56m Tonnes). Conversely many other ports are significantly over or understated stated for the reasons outlined above.

Section 124: Institutional arrangements

The report seems to infer that substantial local government (LG) ownership of ports may have been an impediment to its commercial operation. In the case of the Port of Napier, with no political representation at Board level and a strong commercially appointed Directorate, our financial record over 20 years points to a successful commercially oriented operating model in line with the 1988 legislation covering port companies. The issue is around how Port Company Directors are appointed and the skill sets they bring to the role rather than local authority ownership per se.

Section 128: Financial performance

As per the above comments the Port of Napier operating model demonstrates one means of successfully prospering across a variety of financial measures – all being entirely commercially oriented. We question the reliance on, and opinion from advisors with a clear vested interest in the potential outcomes. Independent financial analysis is required at the highest level.

Section 129: Operational performance

Again we take issue with the use of and source of anecdotal comments as the implied basis for operational efficiency measures. Who should determine those measures? Certainly freight owners or international shipping lines - many not being NZ companies – need to be consulted however we contend that wealth generation should be retained within NZ so long as our ports are internationally competitive.

Section 133: Role in regional development

If ports operate successfully in a commercial sense then there may not be an implicit subsidy from rate payers to freight owners. It would be wrong to imply there is one for all Port Companies.

Section 135: Larger Ships

It is correct to comment that the size of vessels calling in NZ has increased over the last ten years and that trend is likely to continue to some degree going forward. However it would be erroneous to suggest that the current average vessel of around 2000/2500 TEU's will not play a significant part for a long time to come. Even if vessels moved to the next generic size of around 3500 TEU's over the coming period, it would be grossly misleading to develop long term infrastructure plans to service 6000/7000 TEU's sized vessels in the current 10/20 year timeframe. There are newer technology vessels already in the market of around 5500 TEU's at dimensions 262m in length, 40m beam and 12.5 m max draught that can be appropriately catered for without unnecessary dredging or development. By the time the NZ market for containers is big enough to sustain larger vessel in their own right the older longer and deeper vessels will have been scrapped. With the Panama Canal being widened in 2014, the type of vessel able to service NZ will potentially change considerably. Only one company introduced the 4100 TEU vessels to NZ and that company has not been able to fully support the available slots themselves and have subsequently made slots sharing agreements with three other partners. If the largest container shipping line in the world cannot make the 4100's work with their significant market share then it will take a long period of time for the NZ container market to grow to a size that will ever be able to support multiple services with 6000/7000 TEU's sized vessels, if at all. The other major point around these larger vessels and projected savings for NZ inc, historically as larger vessels

have been introduced over recent years it would be wrong to suggest that the savings in lower slot costs have been passed on by way of lower freight rates; accordingly the benefits have not accrued to the NZ exporter. Southbound rates have been lower substantially for importers but exporters have not seen the same changes. In fact only a few large exporters of national significance have been able to leverage their position to take advantage of these changes. On a "NZ Inc" basis such a change could seriously disadvantage regional exporters and their local economies.

Section 137: Hub and Spoke

It would be fair to conclude that the current references in the facts and issues paper are somewhat outdated in referring to Hub and Spoke as a continuing trend in NZ. Over the last two years overseas international shipping conferences have commonly referred to the Hub and Spoke system as being dead, and that the current terminology for the current and evolving trends and practices is for "Mega Hubs and Multi Port Gateways". A number of NZ ports still refer to hub and spoke but that is from a self interest point of view. If the logic and arguments of hubbing to a single NZ port holds, then the same arguments about efficiencies and lower costs will equally apply to a larger hub in Australia without any need for unnecessary and costly capital developments. If only one shipping line is to commit to larger vessels that might support transshipment from NZ then why should other lines and exporters pay for the costs of dredging that they do not use. From current trends in NZ a number of shipping services have consolidated their services and ports and are effectively using a smaller number of ports to move their cargo through. Most NZ container services are using a multi port gateway approach to bigger overseas ports or mega hubs such as Singapore, Hong Kong, Australia or Cartagena (Colombia). This is after they have first called at multiple NZ ports.

Section 306: Future Investment

It is disappointing that other major investments in regional ports have not been identified as this stage of the process. In Napier there is a major \$47 million development of a new wharf and 1.4 hectare support reclamation that the Minister of Transport is officially opening on the 13th November that has been entirely missed. Equally the Port is progressing the building of a further high powered Voith tractor tug in Vietnam at a cost of around \$15 million. This will future proof in the handling of ever bigger vessels and it will position the port for the next 20 years or more. These key points have been overlooked in the Facts and Issues paper.

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