

About the New Zealand Shippers' Council

The New Zealand Shippers' Council is an association of major New Zealand-based cargo owners - both importers and exporters.

The current membership of the Council includes companies and organisations with major interests in industries such as forestry products, fruit, steel, dairy, meat and coal. Collectively the Council accounts for more than 50% of New Zealand's total annual volume of exports.

At the time of publication, members of the New Zealand Shippers' Council include the companies listed below.

The objectives of the New Zealand Shippers' Council are:

- To be the national body representing large volume cargo owners;
- To be the pre-eminent group in supply chain developments particularly relating to cargo handling and movement, commerce and legislation;
- To be a major driver in supply chain and logistics training policy; and
- To protect and advance members' interests.

For more information about the New Zealand Shippers' Council, visit www.shipperscouncil.co.nz or contact the Chairman, Greg Steed on greg.steed@extra.co.nz or ph 0274 323 761.



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Disclaimer

The key findings of the 2010 'Question of Bigger Ships: Securing NZ's International Supply Chain' report reflect the views and opinions of the New Zealand Shippers' Council, founded on evidence-based analysis of the available data and other information. Data and information in this report has been obtained from sources believed to be reliable. The opinions and conclusions expressed, represent the majority view of members of the New Zealand Shippers' Council. They do not necessarily represent the unanimous view of all individual member organisations. Whilst care has been taken to ensure the data, analysis, and findings in this report are as accurate and robust as possible, the New Zealand Shippers' Council and its member organisations do not accept any liability for any perceived or actual costs or losses, however caused, including by negligence - whether direct, indirect, consequential, special, financial (including loss of profits or business opportunities), or otherwise - arising in any way from any information or statements made in this report.

The Question of Bigger Ships

Securing New Zealand's International Supply Chain
Update - April 2012



Produced by the New Zealand Shippers' Council

Background

In August 2010 the New Zealand Shippers' Council released a comprehensive report investigating the introduction of larger container vessels to New Zealand waters. For the first time, the report set out the perspective of the cargo owners (exporters and importers) and covered all the important factors of cost, time to market, and above all, the reliability and predictability of transport services.

The purpose was to provide robust, impartial analysis to help key decision-makers in industry and government identify the action needed to protect and enhance the efficiency of New Zealand's supply chain, and ultimately the international competitiveness of our exports.

The study was undertaken by a team of freight sector experts and analysts from member organisations of the New Zealand Shippers' Council. Titled '**The Question of Bigger Ships: Securing New Zealand's International Supply Chain**', the report's recommendations were:

- Before further industry consolidation takes place, the Government ensures the **legislative framework is not a barrier** to bigger ships being introduced to New Zealand and takes the required steps to ensure anti-competitive behaviour, such as cartel pricing or capacity restrictions (whether by ports or carriers), does not result due to increased use of vessel sharing arrangements and/or port consolidation.
- Shipping companies consider opportunities **to further combine capacity** on some of the services that currently call at New Zealand to bring forward the timing of the scale benefits to New Zealand of larger vessels.
- Two ports (one in the North Island and one in the South Island) should invest to become **7000 TEU ship capable** within the next five years.
- Under a scenario where a North Island and a South Island port become 7000 TEU ship capable, the remaining two key container ports should secure the necessary resource consents and **prepare to implement their capital plan** in the future when it becomes viable through growth in trade, for New Zealand to have two bigger ship ports on each island.
- KiwiRail should, **as a priority**, ensure the \$750 million of government funding earmarked for its turnaround plan is targeted at parts of the rail network that will support a bigger ships future.

It is now 18 months since the report was released and it is **time to consider what has occurred** in terms of the report's impact, progress on the recommendations and relevant changes in the global supply chain environment.

Report impact and progress on recommendations

The report launch attracted **widespread media coverage** and has continued to be referenced by media and expert commentators and used in consultations. The report enabled the Council to **start people talking and start talking to people**. The stakeholders engaged in this process include the major ports and port owners, carriers, road and rail representatives, industry organisations and the Government. Progress has been made in each area of the report's recommendations.

The Council **welcomes the Government's instigation** of the Productivity Commission Inquiry into international freight transport services. In particular the breadth of the review across all modes and the Commission's draft recommendations to **repeal the exemption** for rate making and/or capacity limiting agreements for liner shipping, and to extend the gathering of freight information by the Ministry of Transport. This directly reflects the Council's 2010 report recommendations. **Encouraging progress** has also been seen in the rail and road sectors, namely the implementation of the KiwiRail turnaround plan.

The global trading environment in which the industry is operating has, however, impacted directly on the realisation of recommendations made to the ports and carriers.

Global Supply Chain

Global Trading Environment

The Global Financial Crisis **still casts a shadow** over global economic conditions while the strong New Zealand dollar continues to have a significant negative impact on exporter returns. This **further strengthens the need** to have the most efficient supply chain possible.

Carriers

Many container shipping lines ended 2011 in negative positions continuing the **financial rollercoaster** of losses in 2009, profits in 2010 and now back to losses.

Vessel Sizes

Globally

Container vessel sizes **continue to rise unabated** as carriers form alliances aimed at lowering slot costs through better economies of scale achieved by the use of bigger ships. While vessels >10,000 TEU represented only 9% of the international operating fleet in October 2011, 49% of container ships on order are vessels >10,000 TEU¹. Beyond alliances, consolidation in the container shipping industry may also **accelerate to improve operating and financial performance**.

Calling New Zealand

During 2011, several carriers **increased capacity from New Zealand**, primarily to North Asia but also SE Asia by introducing smaller ships. While this additional capacity was **welcomed by shippers**, it was in the most part provided on smaller ships which have a higher cost to serve than bigger ships. It underlines the risk of New Zealand becoming a '**boutique shipping**' nation if ports are not upgraded allowing bigger ships to come. However New Zealand also has a significant and growing time-sensitive trade, so frequency of service and transit time remain critical.

Furthermore, the International Container Lines Committee, representing international carriers calling New Zealand, does **not feel these current changes invalidate a bigger ships future**. Until New Zealand ports are able to accommodate bigger ships, carriers will adjust services and capacity to meet both **market and infrastructure demands and conditions**.

Current and Future Cargo Volumes

Total NZ imports and exports **increased** by 4% in 2009, and 11% in 2010, but decreased by 1% in 2011 as the effects of the Global Financial Crisis were felt.

Comparative changes to South East Asia container volumes were -4%, 9% and -1% respectively². The Shippers' Council remains confident **expected growth still supports bigger ships** on the South East Asian trade route.

Infrastructure

Ports

The four main ports have made **varying degrees of progress** towards becoming big ship capable as follows:

- **Auckland:** No new infrastructure developed, due mainly to governance and management changes that are still bedding down.
- **Tauranga:** A dredging consent was approved in December 2011, but has subsequently been appealed. Construction of the container berth extension has begun and a new crane ordered with delivery due early 2013.
- **Lyttelton:** Earthquake impacts led to changed development plans but reclamation has been accelerated.
- **Port Chalmers:** A dredging consent has been granted, with only one appeal still to be worked through.

Roads

Spending on roads has continued and provided greater access to some ports.

Rail

New locomotives and wagons and incremental work on rail corridors have **further increased KiwiRail's capacity** to handle increased volumes.

Coastal shipping

Coastal shipping capacity **remains similar to 2008**.



References:

1. Alphaliner Monthly Monitor, www.alphaliner.com October 2011
2. Statistics New Zealand, www.stats.govt.nz accessed February 2012

Conclusions

The potential benefits identified in 'The Question of Bigger Ships: Securing New Zealand's International Supply Chain' remain valid. If anything, they are conservative given the rising costs of oil. New Zealand could realise NZ\$144 million per year of direct net supply chain benefits from 2015/16 from having bigger ships operate on the SE Asian route alone, and with infrastructure developments at two ports. It is also **important to note** all potential benefits and costs (including infrastructure investment costs), have been included. The estimates are conservative and record direct benefits only, which exclude the significant flow-on benefits to the rest of the economy.

New Zealand's export trade **will continue to be impacted** by changes in international shipping services. New Zealand must therefore stay abreast of developments in the global shipping industry to prevent being marginalised.

Environmentally, bigger ships are **more fuel efficient and therefore have a reduced carbon footprint**. A 6500 TEU vessel gives a 31% reduction in CO₂ emissions compared to a 2600 TEU ship.

Bigger ships are **an insurance policy to protect New Zealand's international supply chain** so our products remain competitive. These benefits will not be realised if New Zealand ports are not capable of handling bigger ships. Furthermore, there is a risk shipping services will further hub through Australia if two New Zealand ports are NOT capable of handling bigger ships in the next five years – increasing net supply chain costs by \$194 million per year. Existing services hubbing through Australia are exposed to congestion, industrial relations disputes and **missed transhipment connections at Australian ports**.

The real value of bigger ships to New Zealand, therefore, is estimated to be \$338 million per year. This is the opportunity and is essential if New Zealand is to maintain its international competitiveness and trade performance.

In the past 18 months, the case for bigger ships has increased.

2012 Recommendations

- **Continue the positive progress by ports, rail and carriers towards accommodating bigger ships.**
- **Government to consider the recommendations of the Productivity Commission Inquiry into International Freight Transport Services ensuring any barriers to the introduction of bigger ships are removed.**
- **Review the Resource Management Act as a matter of priority to ensure port development is recognised for all its benefits both regionally and nationally.**
- **Planning authorities to implement strategies to prevent urban development on ports and their access corridors, such as road and rail links.**

