



31 August 2011

Geoff Lewis
Inquiry Director
International Freight Transport Services Inquiry
New Zealand Productivity Commission
P O Box 8036
Wellington 6143

Dear Geoff

SUBMISSION TO INTERNATIONAL FREIGHT TRANSPORT SERVICES INQUIRY

Introduction

This submission is made on behalf of Port of Tauranga Limited, in addition to the combined port submission by Saunders Unsworth, aiming to augment the combined port submission specific to the Port of Tauranga.

Commission Questions

Q2

Is the framework described in Section 3.2 appropriate for this inquiry? Are there any important issues that might be missed?

We are surprised that the scope of the Commission's review excludes road, rail, and coastal shipping. From the "gate to plate" extent of our Exporter's supply chains, these components represent a significant proportion total supply chain costs and in many cases are less than optimal currently.

Q4

What environmental consideration should fall within the scope of this inquiry? What issues are of particular importance?

Environmental considerations are extremely relevant to the scope of this inquiry.

A pertinent example is the length of time and significant costs associated with attempting to secure resource consents to increase the depth of our shipping channels. We commenced preparing the Environmental Impact Assessment in July 2007. The Commissioners' Hearing was held in March 2010 and subsequently recommended the granting of the consents. Three Iwi parties appealed the Commissioners' decision and we have been in the Environment Court since April 2011, with the next hearing date set down for November 2011 – four years on. Legal and expert witness costs to date have mounted to \$1,624,000, which excludes the considerable internal resource consumed by this process.

A recent study by the New Zealand Shippers' Council suggests significant economic benefits estimated at \$388 million per annum are available if New Zealand can have a number of ports capable of handling vessels in 7000 TEU size range. Currently no New Zealand ports can handle vessels of this size.

Quite a few of the numbers in the logistics cost breakdown case study in Table 2 don't look quite right. We imagine some of the figures should be confidential and commercially sensitive but \$56/container does not look correct for a transshipment fee and normally wouldn't be charged in addition to a port service charge. A forestry levy also looked unusual on an import container from Singapore to Christchurch. We also think a case study breakdown on an export container would be more revealing from a GDP enhancing perspective. What is salient is the relatively insignificant proportion of total logistics costs represented by Port charges.

Q5

To what extent is there effective competition for customers between New Zealand ports? Has this led to lower prices and incentives for productivity improvements?

We consider there is considerable competition amongst Ports, with New Zealand having an unusually high port density relative to our population.

We would also challenge the notion that ports generally have a large degree of geographical monopoly over bulk cargo sourced from a port's hinterland. A few cargo examples through the Port of Tauranga contrary to this assumption include; steel exports from Glenbrook Mill, grain imports for Goodman Fielder and subsequent flour distribution throughout the North Island, and bulk liquids for the upper North Island.

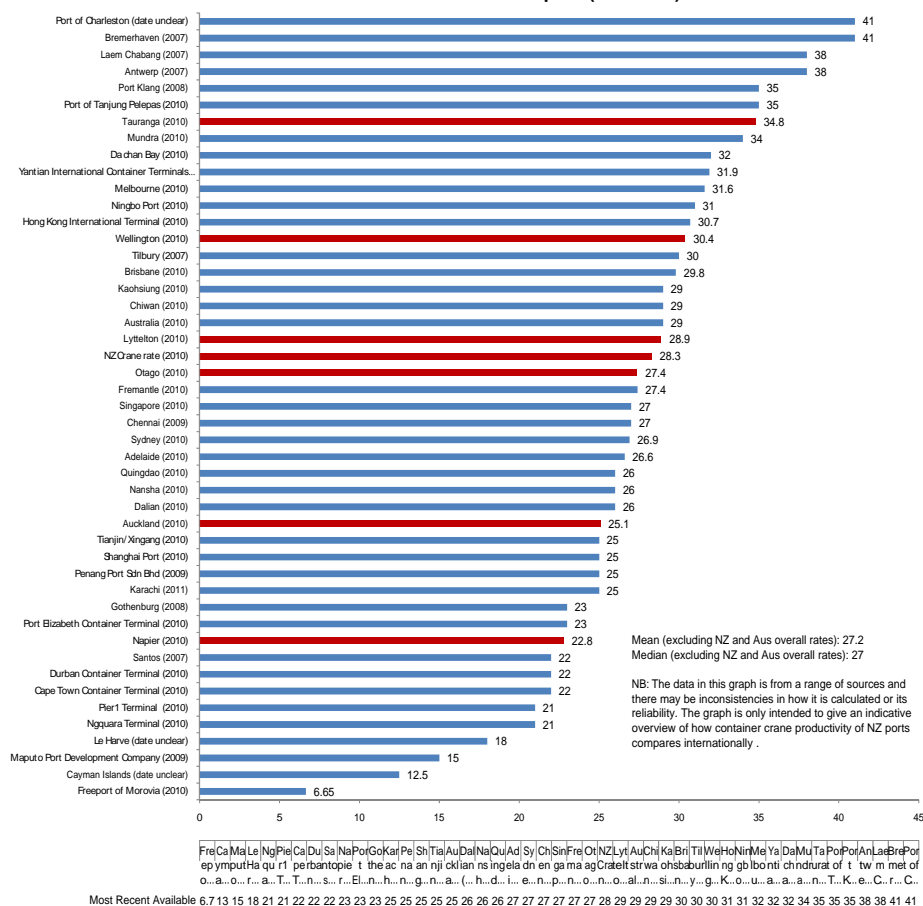
Q6

What are the most appropriate and reliable data available to measure port performance and productivity in container handling?

We consider Figure 15 presents a narrow representation of New Zealand ports container productivity (there was another slide in the Maersk presentation which demonstrated Port of Tauranga to be 12% more productive than Melbourne, 16% more productive than Singapore, and similar to Tanjung Pelapas in Malaysia).

The Ministry of Transport is collecting container productivity data that shows New Zealand ports generally compare favourably with international ports (see below).

Table 6 : Crane rates at international ports (2007-2011)



There is currently research in Europe that also introduces a cost index to the denominator, which we consider is worthy of utilisation to properly measure productivity.

Q11

What is the most appropriate way to measure port profitability? What is an appropriate rate of return on assets and equity?

Shareholders would generally consider Return on Equity or Return on Assets to be relevant measures of business performance, with an expectation that the business or incremental investments would at least meet the business's Weighted Average Cost of Capital (with a risk beta appropriate to the sector). Port of Tauranga currently uses an after tax WACC of 8.5%.

Care is also needed to ensure 'apples with apples' comparisons, where Port's seem to have quite different asset revaluation policies.

Q12

Is there evidence of a systematic problem of low port profitability? Or conversely, excessive profitability?

As a total port sector, there is certainly not evidence of excessive port profitability, with nearly \$4 Billion of assets yielding a pre-tax return of approximately 4-5%.

Q15

Has local-authority ownership of majority stakes in New Zealand's commercial ports inhibited, enhanced, or been neutral for the development of a more efficient and productive port sector?

There is evidence of local authority ownership having previously inhibited port rationalisation.

Q16

What changes in governance, regulations or ownership would offer the best means to improve port performance for exporters and importers?

We consider the mixed ownership model or a partial privatization of ports, as was originally intended when the Port Companies Act was drafted more than twenty years ago still remains valid. Moreover, being a company listed on the Stock Exchange requires a greater degree of transparency of reporting and scrutiny of investment decision making.

Environment Bay of Plenty have been an excellent major shareholder in the Port of Tauranga. Despite owning a majority 55% of the stock, they allow the Board and Management complete commercial autonomy to run the Company as the Port Company Act intended. A recent example of professional governance was the Chair of Quayside Securities formally abstaining from any Board discussion on the setting of dividend policy.

This has been a successful ownership model for Port of Tauranga shareholders who have enjoyed a Total Shareholder Return (capital appreciation plus dividends) of 2262% since listing in 1992, or a compounding annual growth rate of 17.6%.

Q18

To what extent do inflexible labour practices and difficulties in employer-union relationships remain an obstacle to lifting efficiency and productivity at New Zealand ports?

This issue is considered significant, with a number of Unions currently pushing the boundaries of the freedom of association principles of the Employment Relations Act.

Q57

Should decisions on investments in ports and in the associated infrastructure links to ports be left to the judgments of the individual suppliers of the separate components? Or would some sort of overall strategic plan provide useful guidance and some assurance that complementary investments will happen?

This overall strategic plan should already exist in the form of the National Infrastructure Plan.

Q58

What is the scope for greater consolidation of ports, greater vertical integration of ports with domestic transport operators, or more use of long-term agreements between shippers and port companies, as possible means to overcome coordination problems and achieve more efficient international supply chains?

There is considerable scope for further consolidation of Ports into a hierarchy of ports into the categories previously discussed by Rockpoint viz; Regional Bulk ports, Regional Container Ports, and International Container Hub ports, with the market being the driver.

We contend that if Port's simply priced and invested to achieve a cost of capital return (as they are mandated to do under the Port Companies Act) this hierarchy of ports would develop naturally and quite quickly, without the need for heavy handed intervention or regulation.

Q65

What are the potential benefits and risks for New Zealand from a move to hub-and-spoke configurations for international shipping? Are there actions New Zealand can take to increase the likelihood of benefits or to manage the risks?

As mentioned above, there are considerable potential benefits available through the development of hub and spoke configurations. A recent study by the New Zealand Shippers' Council (representing more than half of New Zealand's exporters suggests significant economic benefits estimated at \$388 million per annum (just on South East Asian trade lanes) are available if New Zealand can have a number of Ports capable of handling vessels in 7000 TEU size range. This figure increases to \$391 million by 2020.

Thank you for the opportunity to make a submission. We would welcome the opportunity to discuss the Issues paper further and accordingly extend an invitation to the Commission to visit the Port.

Yours sincerely



Mark Cairns
CHIEF EXECUTIVE