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Tena koutou katoa,

LYTTELTON PORT COMPANY SUBMISSION ON NEW ZEALAND FREIGHT AND SUPPLY CHAIN ISSUES PAPER

1. Lyttelton Port (the Port) is the South Island's major deep-water port and is the international freight gateway for the South Island.
2. LPC is a wholly owned subsidiary of Christchurch City Holdings Limited, which is the investment arm of Christchurch City Council.
3. LPC thanks Te Manatū Waka – Ministry of Transport for the opportunity to submit on The New Zealand Freight And Supply Chain Issues Paper

GENERAL COMMENTS

4. Goods are imported and redistributed to the South Island from international and other domestic locations via the Port and LPC's inland port facilities. Imported cargoes include many necessities including food, fuel and other home consumables, consumer goods and cars, raw materials for manufacturing, and fertiliser and feed for agricultural production.
5. Export cargo originates from across the South Island. Export customers include a wide variety of dairy, meat, forestry, horticultural, mineral extraction and manufacturing businesses.
6. Over recent years, LPC has handled approximately 50% of all South Island export volume, and around 70% of its import volume. The volume split is roughly 50/50 import/export, making Lyttelton attractive for shipping lines as they do not have to move too many empty containers.
7. LPC's landholding at the Port covers a total of some 163 hectares, extending from Magazine Bay in the west to Gollans Bay in the east. The container terminal is operated from Cashin Quay which is situated at the eastern edge of the Lyttelton Township adjacent to Te Awaparahi Bay. The Port operates continuously, that is, 24 hours each day and 7 days per week.

8. LPC also has two inland ports (the Inland Ports); CityDepot in Woolston and Midland Port in Rolleston. The Inland Ports are an integral and integrated component within the Port's infrastructure, containing road and rail interchange for empty containers, and full container loads six days a week.

THE IMPORTANCE OF SEA FREIGHT

9. Over 99% of international freight is handled by sea freight in New Zealand; as an island nation we rely on the 'blue highway' to deliver our goods to the international market and to receive imports.
10. As the New Zealand population and economy grows, particularly productive sectors, the need for sea freight increases. The increasing import/export freight volumes have been a consistent pattern in the past and is expected to continue.
11. Trade through Lyttelton Port has grown considerably across both containerised and general cargo. In the current year (ending 30 June 2022) the port expects to handle around 500,000 TEU containers, an increase of 13.6% on the previous year and 71% higher than volume in 2011. This is equivalent to an average annual growth rate of over 5%.

LPC'S ROLE IN THE SOUTH ISLAND ECONOMY

12. Lyttelton Port plays an essential role in South Island commerce and regional development. LPC is of critical importance to the regional economic growth of Christchurch, Canterbury, and the South Island, providing exporters needing to get goods to overseas markets efficient and timely access to international shipping services.
13. LPC is by some margin the largest Port by container volume in the South Island, and that volume continues to grow. LPC is also a fully large-vessel capable Port, with a channel capable of taking large vessels, and with Resource Consents in place to enable further capital dredging to take the channel to an all-tides draft capability of 14.5m.
14. LPC is currently developing the first stages of its land reclamation programme as Container Terminal. This \$85 million development is due for completion in 2023 and will increase the Terminal's capacity to 620,000 TEU per annum.
15. LPC also has Resource Consents in place to reclaim a further 16 hectares of Container Terminal space and construct a further 700m of deep draught container berth space. In total, this will provide capacity for up to 1.2 million TEU per annum.
16. LPC's current scale as the South Island's main international gateway is reinforced by Statistics NZ projections showing Canterbury's population growth will be second only to the Auckland-Waikato region on the coming decades. This status is also supported by the proximity to the productive land of the Canterbury region.
17. LPC forecasts ongoing growth for its container terminal to reach well over one million twenty-foot equivalent units (TEUs) by 2045. Non-containerised volumes of export and import trades are expected to continue growing but not as fast as containerised cargo.

COASTAL SHIPPING

18. Coastal Shipping forms a vital part of New Zealand's domestic distribution, facilitating the movement of goods, food and beverages from manufacturing bases in the Upper North Island to Distribution Centres around Christchurch for movement around the city and to the wider South Island. The predominant connection for domestic goods movement is from Ports of Auckland to Lyttelton. COVID has seen a reduction in domestic coastal freight, but prior to that there had been a steady increase, carried on both domestic and international vessels, for the last decade.
19. However, the focus on Coastal Shipping requires further analysis of demand and trade flows. This is required to validate that the road to coastal shipping transition model is practical, or whether in many cases a transition to rail is more efficient. This is especially important given the potential congestion impacts through additional vessel arrivals at ports (and the risk berth space is simply not available), and additional container handling and storage requirements at ports.
20. If the coastal model is intended to simply move import/export volume from international continuation services to coastal, then it could be that no carbon reduction nor efficiency savings transpire. The risk is that in fact efficiency could decline through multiple handling of containers, and carbon increases occur in the container journey due to handling equipment emissions.
21. There may also be an issue around container availability, as most containers in New Zealand are owned by international shipping lines. Analysis should be undertaken to understand if this is an issue.

CENTRALISATION OF DECISION-MAKING AND HUB AND SPOKE

22. The papers' broad theme around centralised decision-making and the removal of parochial interests may have some merit but requires further consideration. However, the key issue is ensuring the timeliness of decision-making, particularly with regard to port infrastructure.
23. Decisions also need to be based in fact. There needs to be detailed demand and supply analysis carried out before any central decisions around hub and spoke models are made.
24. The hub and spoke model has been the clear direction for container freight at New Zealand Ports for some years, and has been driven by demand. Shipping lines are already consolidating freight from regional ports to ports like Lyttelton and Tauranga for transshipment to larger vessels. This trend was identified as early as 2010 by the Shippers Council of New Zealand in their paper *The Question of Bigger Ships: Securing New Zealand's International Supply Chain*.
25. However, the issues paper infers New Zealand's international hubs are in the Upper North Island. Demand and shipping lines' current practice would suggest that there needs to be a wider distribution of hubs that includes the South Island.

INFRASTRUCTURE AND RESILIENCE

26. The paper needs to consider physical resiliency in the port resiliency discussion, given aging and congested infrastructure at many ports and the natural hazard risks that New Zealand faces.
27. The strategy also needs to consider an approach for ports to receive a fair return from customers for the significant infrastructure investments required. Pricing services accordingly has been inexact in the Port sector in the past. The reality is that this will drive prices for customers up as

Ports price infrastructure properly, but it will also ensure that assets get built in the right place at the right time.

28. Resilience of the supply chain must include consideration of physical infrastructure resilience to climate change weather extremes, tsunamis, and volcanic and seismic events. New Zealand must ensure we have geographically dispersed hubs to support this physical resilience.

BULK

29. The Issues Paper rationalises that as the goods value of containers is significantly greater than bulk, the focus should be on containers. This may be an oversight, given the value and importance of bulk goods to supply chain partners and the infrastructure investment associated with handling bulk goods.

THE FOCUS OF THE PAPER

30. The paper focuses largely on Ports. A supply chain strategy should look in depth at the whole supply chain. For example, issues around on-Port congestion could be alleviated by the investment by other parts of the supply chain in facilities for hub and spoke landside distribution model for containers.

ADDRESSING THE SPECIFIC CONSULTATION QUESTIONS

31. The following section addresses the specific questions posed in the Paper for feedback.

1. Do you agree with the outlined description of the freight and supply chain system?

The description includes insights about the supply chain, however, the further and deeper analysis of drivers, issues, and considerations of the parts of the whole supply chain would provide better understanding of the complex system. This understanding should be outlined before proposing the major strategic change provided in later parts of the paper (central governance, the hub and spoke model).

The key considerations are:

i) Supply Chain influence

The strategy should assess all the various roles in the supply chain, their respective ability to participate, and the consequences of vertical integration and consolidation that has taken place, for example within international shipping lines. Supply chain efficiency is also related to the ability of each individual importer/exporter/Port to negotiate with larger shipping line/s. Consideration might be given to the mechanisms for ports to price for fair return on major infrastructure investment.

ii) Demand

The strategy paper has limited discussion on goods demand flows, which could determine what hubs and spokes in addition to, or in place of, today's structure may be required.

Whilst population growth is discussed (and can be assumed to drive imports), an assessment of detailed demand for exports by type and geography is required. This is important as the paper discusses changing primary export mix and export locations but does not provide scenarios for this.

The paper focuses on Auckland-Waikato population growth but does not reflect that

over the 30 years growth, Statistics NZ has estimated a 25% increase in Canterbury.

The paper then misses the critical importance of having a main international-scale port in the South Island to enable the regional economic growth of the largest urban population in the south in Christchurch, and Canterbury and the South Island, and to exporters needing to get goods to overseas markets efficiently and timely.

The advantages that Lyttelton as a port has, including immediate geographic proximity to the major South Island population base, is that infrastructure development consents are already in place. A future-proofed port would also provide NZ Inc with an alternate to Northern ports in the event of a natural disaster there.

iii) Infrastructure redundancy

The paper makes a very positive inter-generational point that the system needs long-term thinking and redundancy built in. To achieve this, an understanding the trade flows by assessing actual import and export demand, and then overlaying freight distribution movements such as empty container relocation, or transshipment of containers will help identify the system demands and extra capacity can be built-in at the relevant “chokepoints”.

iv) Time critical actions

Infrastructure decisions are needed soon, for example, port wharf additional capacity construction to avoid forecast impending capacity constraints. With multi-year build times, delays in approvals could severely impact the resilience of NZ freight and supply chain, potentially beyond current Covid delays.

2. Do you have any views on the outlined role of government in the freight and supply chain system?

In principle a central approach to the freight and supply chain strategic priorities will bring an integrated direction and principles for operation.

Key Considerations:

- i) To make meaningful change however will require not only strong strategic oversight and governance but likely operational management oversight on implementing the required changes, e.g., road to rail + ship, port redevelopment prioritisation.
- ii) This will require a clear model of the freight system and demand flows and constraints that a central independent body can bring.
- iii) The Government may be required to investigate a national interest in infrastructure such as having regulated port fees.

3. Do you agree with the outlined strategic context and key opportunities and challenges? If not, please explain why.

The paper takes a high-level view for resetting a complex, highly interconnected, highly capital-intensive system and might risk further loss of resilience, for example in recommending a centrally controlled hub and spoke, without considering the complex integrated future demands on the components of the system (e.g. Ports, Inland Ports) and also new supporting services (e.g. requirements for a clear alternate fuels strategy for New Zealand).

Key Considerations:

- i) Trade flows analysis to determine demand and capacity and inform system infrastructure

- requirements should be developed.
- ii) Clear positive mandates for decarbonisation are discussed but a pathway to decide which green fuel solution will be implemented in New Zealand is needed.
 - iii) Hub and spoke focus to enhance theoretical regional connectivity solution is too high level and trade flows need to be modelled.
 - iv) Discussion around potential coastal shipping options should consider container management, transshipment, port berth and land storage capacities. There also needs to be analysis of whether simply replacing an international service with a domestic coastal service reduces emissions substantially.

4. Are there any trends missing that we should consider? If so, please explain what they are.

Yes:

- i) Demand scenarios for both imports and exports by type and geographical area, and container repositioning should underpin any strategic change in the supply chain/port model. Differences in imports and exported volumes might impact empty container relocation.
- ii) The paper does not seem to consider the existing hub and spoke-like approach, which is already driven by demand, for example the Maersk Sirius Star service. Parallel to this is the increasing size of vessels visiting New Zealand, which is pushing this trend naturally.
- iii) Bulk goods flows are not discussed as the paper focuses on containers because of the high value of the goods moved. This misses the economic benefit to the supply chain of bulk goods and the critical value to eventual primary product export (Fertilisers, feed etc) as well as export value like logs.
- iv) The discussion on which vessels to support in the New Zealand supply chain should follow the insights from trade flows. The order of the discussion appears to be reversed.

5. Which of the opportunities and challenges do you believe will be most important in shaping the future of the freight and supply chain system in NZ and why?

- i) Trade flows demand analysis by freight type, geography, and transport mode as stated previously
- ii) New Zealand's role in the supply chain and approach to global participants, e.g., shipping lines whose scale influences the supply chain
- iii) NZ Inc decision on which future fuels to implement and support at international ports to enable infrastructure planning & development to commence

6. Do you agree with the outlined vulnerabilities of the current system? If not, please explain why.

No:

- i) Data consideration should extend beyond information collation, with an integrated platform to drive data for decisioning and efficiencies, day to day operations (and carbon reduction) within the total supply chain. It is important to have an integrated solution minimizing bespoke, independent solutions.
- ii) Covid hopefully is more a ~1:100-year event than an ongoing epidemic, so global disruption will get back to a new normal better than covid times, hence using the pandemic as a driver of change risks a view of the future which may cause over reaction.

7. Is there any key information missing in understanding the vulnerabilities of the current system?

Yes:

- i) The data-based implications of moving to a Just-in-case supply chain inventory system are not provided - this requires an assessment of the cost of working capital increase to hold inventory vs. risks, should another COVID situation eventuate and impact the supply chain.
- ii) Understanding of shipping line strategies which appear to be focused to deliver shipping line-specific, autonomous, integrated end to end solutions for importers and exporters, and how these will integrate into the New Zealand supply chain strategy
- iii) Decision pathway to confirm which green fuel/s will be implemented is required
- iv) Trade flow demand analysis as mentioned earlier

8. Do you agree with the proposed outcomes? If not, please explain why.

Not necessarily. A decision to move to a centrally controlled hub and spoke model without understanding the future demands by geography, transport mode and existing hubs could place significant risk on the resilience of the supply chain outside the geographic area of the single geographic hub. Ports help generate economic growth in urban and regions so the ability to facilitate freight simply and effectively at local level is critical.

9. Are there more outcomes the strategy should focus on? If so, please explain what they are.

Yes. A full trade flow demand forecast to base infrastructure and freight model decisions.

10. Do you agree with the potential areas of focus for the strategy? If not, please explain why?

Yes.

11. Which of these areas of focus would be most important to prioritise?

We would add the following:

- i) Port Safety and efficiency
- ii) Port price model
- iii) Port infrastructure requirements based on appropriate data driven demand forecasts (imports/exports/container and goods repositioning)
- iv) The role of the South Island in the Hub and Spoke model

12. What would successful stakeholder engagement on the development of the strategy look like from your perspective?

- i) Direct involvement by LPC in the strategy process - framing and scope, reviews, investment prioritisation and strategy finalization, and implementation.
- ii) Consultation on the strategic outcomes and impact on the South Island with local stakeholders and the Port.
- iii) A seat at the table for resolving, prioritising, and implementing the strategic choices on ongoing basis.

13. How could we best engage with Māori on the strategy?

Building and extending commercial relationships with Iwi – property and freight owners. We suggest direct engagement as the start to this engagement.

CONCLUSION

32. Thank you for the opportunity to provide this submission. For any clarification on points within this submission, please do not hesitate to contact me by email at phil.dejoux@lpc.co.nz.

Ngā mihi

A handwritten signature in black ink, appearing to read 'Phil de Joux', with a long horizontal flourish extending to the right.

Phil de Joux
General Manager Engagement & Sustainability