Border Sector Industry Stakeholder Forum speech
Jens Madsen
3 June 2009, Customs House, Wellington

Introduction

Good morning.

Thank you Martyn, for the kind introduction, and for providing the opportunity to speak to you all today.

Thank you also for your leadership within the Australia New Zealand Leadership Forum, which I do hope I can contribute towards in the future.

Presentation outline

There are many opportunities available to businesses, such as Ports, and the agencies involved in border security, to work together to further streamline trade.

To begin, I'll outline the major trends and issues in the ports and shipping sector, which all hold major implications for New Zealand's future.

From this we can identify key areas of focus for streamlining trade – through the application of technology and by improving access and sharing of information throughout the supply chain.

Likewise, I will examine the opportunities and risks presented by our neighbour across the Tasman – Australia.

Ports and border sector agencies, in the end, have the same goal – to protect and enhance New Zealand's ability to trade... whether this be by working for a more productive supply chain, or through bio-security and risk management.

Ultimately, for New Zealand, a country so heavily reliant on trade, we must work together to ensure our ability to compete and succeed in global markets.

The pace of change in New Zealand

But in order to determine what needs to be done, let's first understand where we've come from, and where we are headed.

Over the last 50 years, the way we trade has changed dramatically… And this phenomenal pace of change is not going slow any time soon.

The simple but very effective concept of containerisation originated in the US in the 1950s, and arrived on New Zealand shores in earnest just 38 years ago, when the first full fledge container ship – the *Columbus New Zealand* – called Auckland.

And every decade since the 1980s, New Zealand's shipping volumes have doubled.

Today, world-wide, 90 per cent of non-bulk cargo is shipped in containers.

And in New Zealand, we handle approximately 2.36 million TEU – or standard 20 foot boxes – every year.

In addition, this new reliance on containers has meant non-containerised shipping has not grown significantly, and in fact, has lost market share.

More and more, cargoes are converting from bulk shipping to containers.

One obvious example for New Zealand is our refrigerated cargo sector. As recently as the mid-1990s, the majority of this cargo was carried by conventional refrigerated bulk carriers – whereas now, our dairy, meat, fruits, vegetables and other refrigerated products are all transported using refrigerated containers or ‘reefers’.

Non-containerised shipping is now largely limited to bulk cargo such as coal, grain, fertiliser and logs, and even then logs are trending towards containers.

Last year, Chinese demand pushed charter rates for bulk vessels so high that shippers converted logs into containers.

And our own Ministry of Agriculture and Forestry is predicting that, because of shipping issues, by the middle of this century, bulk log exports from New Zealand will be non-existent, with wood-based products exported in containers instead.

So couple the intense level of growth in shipping volumes with the ever increasing trend towards containerisation –unwieldy bulk and break bulk units becoming easy-to-handle, security-friendly, track and traceable containers…

A good rule of thumb is that a country’s containerised trade growth in a normal year will equal the GDP growth, multiplied by a factor of 2.

Quite simply, we have ever-increasing opportunities for streamlining trade.

International shipping trends

However, New Zealand also faces many challenges. And although I don’t subscribe to the ‘doomsday’ predictions of American commentator George Friedman in the latest issue of the *New Zealand Listener*, it is true that New Zealand’s economy is unusually dependent on shipping and on trade.

It is vital that as a country we understand and are prepared for significant changes ahead.

The international shipping lines, under enormous cost pressure, are consolidating and rationalising.

Of the 20 major shipping lines that visited New Zealand in the 1990s, there are now just 8 major conglomerates.

And future mergers and acquisitions are expected to happen over the 12 to 18 months.

These lines are also working smarter, with vessel sharing agreements or VSAs – similar to airline code sharing – that ensure ships visiting this part of the world are as close to capacity as possible.

The demands on the bottom line are also triggering a trend towards hub and spoke distribution –

And this means larger vessels making fewer port calls.

To demonstrate this, the average size and capacity of container vessels calling New Zealand has quadrupled from 700 to 800 TEU in the 1980s to approximately 3000 TEU today.

And these ships are only going to get bigger. Auckland already services containerships of 4100 TEU, and we are now preparing for the next generation, of between 5 and 7000 TEU.

We are also already beginning to see a reduction in port calls and an increase in trans-shipments.

In 2008 (FY), Auckland experienced a 55.5% increase in trans-shipment volumes – or containers, destined for other ports, being shipped over Auckland.

The implications for New Zealand

Long-term, the implications of these trends for New Zealand are massive.

The changes will put New Zealand's supply chain under more and more pressure.

We will continue to see increasing container volumes, and bigger exchanges of containers per vessel.

Simply put, our trade-dependant nation cannot afford to fall behind in making the necessary preparations…

I am speaking to a New Zealand Transport Summit tomorrow, in depth, on the wider spread implications of these trends for the freight transport system in New Zealand.

And my message to them and to this forum, in effect, is no different…

We must work smarter.

And most importantly, we must work together.

For Ports and border sector agencies, we are both at the coalface, in helping to ensure bio-security and cargo security.

These activities add time and cost on the supply chain… but at the same time, we recognise their importance and know that, long-term, we must be vigilant in protecting New Zealand's trading ability.

The key then is to work in partnership, and more efficiently to achieve our shared goals.

Working smarter - technology

We must think smarter to manage risk in the most effective and efficient means possible.

First, let's zero in on containers again – the greatest means for trade and major area of growth now and in the future.

Containers already offer increased security, greater productivity and ease in tracking and tracing…

And it is these characteristics, and the technological advancements possible, which combine to offer up unrivalled efficiencies.

With volumes in the millions of containers, New Zealand's supply chain is dependant on high-tech systems for managing the flow of those containers and the information about those containers.

At Ports of Auckland, and no doubt other ports throughout New Zealand, our IT and e-commerce strategy is to develop systems and support for use along the entire supply chain. And we believe that fast and accurate communications are the key to efficiency.

Recently, we launched a new Shipment Management System.

It is a central hub or portal providing ourselves, our customers and border sector agencies a single access and interaction point for information.

The System brings together our recently expanded EDI tools – or Electronic Data Interchanges – and our new business rules for export containers, facilitating a more efficient and user friendly process for the delivery and loading of export containers.

Using EDI messages, the System also efficiently identifies late containers and highlights inconsistencies across shared information.

This System and its use of EDI is a prime example of how we can capture the efficiencies offered up by the containerisation and technology.

We'd like to increase the number and type of messages being handled and have a strong desire to see more interaction with Government agencies via EDI.

Already, New Zealand Customs and MAF can access the system, having the ability to apply holds and releases.

Sharing & integrating

However, to be frank, access to information is not enough to achieve the real efficiencies we will need in the future in order to remain competitive with other trading partners.

Increasing the sharing and the flow of information between supply chain partners is vital.

What we need is a higher level of integration.

It's probably unlikely that supply chain stakeholders, such as ports and border sector agencies, within the foreseeable future, will have <u>one</u> system that can satisfy all of our needs…

But, integration between our systems using EDI – again the electronic exchange of data – is indeed achievable.

All along the supply chain we can identify many examples where the flow or sharing of information is not ideal or efficient.

One prime example is the ‘Customs Electronic Delivery Order’ or CEDO – a requirement imposed by the US and an absolute must for loading export containers.

A CEDO has 20 fields for information.

Currently, the Port receives 3 of those fields directly from Customs, while many of the other fields are held by Customs for their uses in bio-security and risk management.

These same fields are also listed on the carter’s note, brought to us by the transport operator when delivering the container.

And by note I do mean a piece of paper – just under 70% of container deliveries are still done this way, while the other 30% are now done electronically through our e-commerce services.

So, processes such as these have two major ramifications:

> The integrity of the information we do get can be compromised. For the Port, it has gone through several transactions before reaching us.
>
> And this slows down the whole process - various parties are duplicating the processes of collecting and entering the same information.

And in the end, this affects the efficiency of our supply chain.

With greater integration between systems and greater partnership, there is a lot of ‘low hanging fruit’ to be picked.

By integrating and sharing this commonly used information EARLY – better planning and improvements to our physical activities becomes possible.

Also, relying on a single source of accurate information greatly enhances our risk management ability and improves security.

Trans-Tasman challenge

Now, moving on, there has been quite a lot of thinking done lately around the potential for a domestic border between New Zealand and Australia.

Australia is New Zealand’s biggest trading partner – we are their third largest – so further facilitating trans-Tasman trade is a very attractive opportunity that we very much support.

If a domestic border does eventuate, it goes without saying that we will still need to remain vigilant in our bio-security efforts.

In fact, quite a few of the recent events leading to fumigations done on ships at the Port of Auckland, have been on ships ex-Australia.

And, due to the short time by ship between the two countries, we need to continue to focus on partnership and improved information integration to work against the time pressures.

That said, we also need to be mindful of the shipping trends we talked about earlier, and the real risk that Australia presents to New Zealand.

Across the Tasman the Australian ports such as Brisbane and Melbourne are investing hand over fist in their infrastructure, backed by state and federal government funds.

Last year, the Australian Government announced a $20 billion infrastructure package, and this included significant funding for port based projects. This year’s Australian budget outlined at least another $389 million in port-related spending.

So, with this and the trend to hubbing, New Zealand could very well end up as a spoke to Australia, rather than a hub of its own.

Unless we as a country prepare ourselves properly, and raise the bar, we might find that the major shipping lines choose to call Sydney, Melbourne or Brisbane over New Zealand.

The reliance on trans-Tasman shipping to connect with global shipping services could have devastating effects that would domino all through the supply chain – and the country’s economy.

This would mean longer and more costly routes to get goods to market.

Our exporter would also be competing for space with Australian exporters and importers.

The SMEs (small to medium sized enterprises) that keep New Zealand’s economy pumping will be denied the speed to market they so need.

And for those in the agricultural sector with cost and time sensitive goods, the consequences are even greater.

And ultimately New Zealand’s consumers could end up having to pay more for even the most basic consumer goods.

Conclusion: New Zealand’s needs, risks and opportunities

So to conclude…In the end, we all have the same goal - to protect and enhance New Zealand’s ability to trade.

Risk management at our borders is a must to provide this protection.

And at the same time, better partnerships and the improving our sharing of information is required to balance these impacts.

Finally, WE must set the agenda for New Zealand - WE must raise the bar. We cannot let others dictate the future of our trade sector.