

SPEECH TRANSCRIPT

**Craig Sain, General Manager Sales Marketing and Logistics, Ports of Auckland
Export New Zealand Christmas Function, Villa Maria
Thursday 20 November, 2008 – 6.30pm**

Good evening and thank you very much for the invitation to speak to you today. I'm Craig Sain, General Manager Sales, Marketing and Logistics for Ports of Auckland.

It's great to see you all in such good heart. Just being here I'm starting to feel like I'm on the home straight to Christmas – so thank you for that.

Of course at the port we have a few pre-Christmas events scheduled ourselves. I thought it would be appropriate first off to address one event that has received quite a bit of media attention in the last few days.

And no – I'm not referring to the young giraffes that we have coming through our Port this week on their way from Auckland Zoo to Australia – it's unfortunately with regard to the threat of industrial action recently announced for early December.

We are anticipating a 24 hour strike, from the 2nd to the 3rd of December, by the Maritime Union of New Zealand – Local 13.

It is coming at a busy time both for the market and for us.

The two container terminals, road, rail, shuttle and engineering will be affected. The General Wharves in the CBD port and in Onehunga, and our Marine services, are not affected.

Look – we're still hopeful of a resolution before then. We're going to mediation organised by the Department of Labour next week. We're keeping the conversation open with the Union. And we're working on a range of back-up plans to help minimise the impact of the strike – if it does go ahead.

This means working with the shipping lines with their scheduling to try and get the vessels in and out either side of the strike. Obviously we don't want to lose any business and want to minimise the impacts to cargo owners.

I need to be frank: obviously the strike is coming at a difficult time not just for the Port operationally, but also for the region and all New Zealand. We know it's not going to send the right messages internationally at a time of unprecedented global economic crisis.

Certainly just one strike is not going to be a death blow for us. But the prospect of protracted industrial action on the waterfront at this time is very concerning for the wider community, including exporters, and we are doing everything we can to avert it.

Stepping back a bit now, I'd like to give you a brief run-down on Ports of Auckland – who we are and where we operate.

Not many people realise, but we've actually got three ports: one in the Auckland CBD – and you can see here the two container terminals, our general wharves and Queens Wharf, which has also been in the media lately; the Port of Onehunga, which is important for domestic shipping; and the Wiri Inland Port in South Auckland. I'll talk more about Wiri later.

Overall we are by far New Zealand's largest and most significant port.

We have the most extensive infrastructure and plant of any New Zealand port – more cranes and more straddle carriers.

Our e-commerce capability is amongst the country's most advanced.

And we have some great natural advantages: a naturally deep harbour and channel, with favourable tidal ranges, that doesn't require any significant dredging to accommodate the new generation of super-sized container ships; close proximity to Auckland, New Zealand's largest city, fastest growing region and biggest warehousing and storage centre; and excellent existing rail capacity – which we want to use more of!

We also have existing scale... We are by far the country's largest port by dollar value of total exports and imports handled.

This graph shows the distribution of export and import values by seaport for 2007. We are clearly the most significant, handling 50% of imports and 24% of exports. Overall we handle 35% of New Zealand's total annual trade by value.

We're also growing rapidly. You can see here the significant growth in container volumes in recent years at Ports of Auckland. These are based on June years. 2007 grew 12.5% over 2006 (773,160 TEU / 586,732 TEU) and 2008 grew 9% over 2007 – up to 840,993 TEU.

We experienced strong cargo volumes during the July to September quarter this year, off the back of some shipping line decisions which were very much in our favour over other NZ ports.

The container terminals recorded 7% growth over the same period last year. Trans-shipment volumes at the Port were up 24% on the same quarter last year.

Volumes hit an eighteen-month high in September. To give you an indication of how busy we've been - the Port handled 18% more trucks during September 2008 than in the same month last year.

Volume also held up well in October and November is looking solid. But looking forward, we are anticipating and are concerned about the potential impact of the global economic crisis on volumes. European ports are reporting drops in through-put of some 5% and this trend will reach smaller countries like New Zealand in time.

However, what is clear is that regardless of short term impacts, over time significant growth is expected in business volumes here in Auckland. So our challenge is very much how to cater for this long-term growth while still meeting Auckland's desire to free up land on the waterfront for public access. This slide shows the land we have already released – some 70 hectares – as part of a progressive move to the East. The expectation is that as new technologies emerge – enabling greater intensive use of the land area – so will the Port's footprint consolidate.

You can see here how we plan to intensify to the East. The top plan is similar to today's layout except we have not fully developed the northern end of Fergusson Terminal. Completion of stage 2 reclamation and the building of a northern berth could take between 5 and 10 years depending upon customer demands. The reclamation process uses maintenance dredging from the harbour - which is mixed with concrete to form a solid base that is called mudcrete.

In our planning we ultimately intend to expand our operation between Bledisloe and Fergusson to accommodate the new generation of container vessels. The lower panel indicates what the Port could look like in 20 – 30+ years. We would envisage that the Terminal activities are marshalled on the northern end and from the centre to the East, while General Wharf and Breakbulk cargoes are handled on the western side.

Of course it's not just about expanding our capacity on the waterfront. It's also about working smarter. I'd like to talk now about some of the new things we are doing at the Port to help exporters and in particular to improve the New Zealand supply chain.

As a small country – remote from global markets – it is vital that our supply chain is sustainable and as lean – and green – as possible.

At the Port, we're only a small part of that supply chain – but we'd like to think we can make a difference to your businesses and your bottom line.

At the heart of this issue is air – and the cost of carrying it. This is a hidden cost but very real nonetheless.

It's about balancing the flow of full and empty containers to minimise the number of unnecessary truck and rail moves. Ultimately the cargo owner is paying for this and where possible the shipping line will be looking to recover it as a stand alone cost or alternatively in the freight rate – if they can.

Taking this cost out, or reducing it, will benefit the overall supply chain and benefit your bottom line. It will also help lower our carbon footprint – which as we all know, will soon come with a dollar value attached to it.

So what are we doing about it? We see the concept of Inland Ports as fundamental to creating a more sustainable and efficient supply chain.

Our inland port at Wiri, for example, is a stepping stone to help road carriers get their goods to port without coming all the way into central Auckland. It's a great opportunity for businesses in the Waikato – we see it as a real hub that will make their lives easier and take truck traffic off Auckland roads.

We recently got Government funding to set up a rail exchange which will enable use of rail between Wiri and the seaport. There will be a cost to use the service, but it will be cheaper and more efficient than having to truck the goods all the way into the city – and possibly go back again empty.

Our goal is to maximise the benefits of Wiri and rail – and as a result we have decided to close our smaller, road served, inland port in East Tamaki later this month.

Given Wiri is some 7 kilometres from East Tamaki, the impacts are negligible and will be more than compensated for when we can hub off Wiri using rail. We hope to do so by the middle of next year

We already have an empty depot facility at Wiri. This will be expanded in the coming months and enable a wider range of operating hours to provide trucking companies with the ability to restitute or pick up empties on a 24/7 basis.

We're also offering new services, like packing logs in containers. And we're planning eventually to relocate our packing operations from the CBD to Wiri as well, giving Wiri full packing, unpacking and cross docking facilities.

I also want to mention our Best Available Unit initiative – or BAU. We estimate that only around 20 to 30% of the trucks entering the Port have two-way loads in and out. We needed to find a way of increasing the two-way loads and reducing the wastage.

In collaboration with our road service provider for Wiri Inland Port we embarked on BAU. There has been one enthusiastic taker and we are talking to others. It is a 'no brainer' for a driver running his truck empty out of the port to the southern part of the city or vice versa, to pick up a load and be paid for it. The rate offered is less than a tariff rate and most trucking companies can price a back-haul load at a lower rate since the contribution replaces an otherwise non-revenue-earning leg.

As well, to assist during the Christmas/end-of-year period, which is often fraught with extra time pressures, we have offered the use of the Inland Port facility as a hub for road carriers at a nominal rate to contribute towards lift costs. This offer extends for 3 months until the end of January.

Again, one enthusiastic taker - not the same one, has taken up the offer! We expect this

number to increase as carriers realise the cost benefit of being able to utilise bookings at the seaport during off-peak times and deliver to customers during the day with shorter lead times and journeys. It's all about taking the wastage and cost out of the supply chain.

I also want to just briefly touch on our Vehicle Booking System – VBS, which is delivering tangible results – more stable and lower truck turnaround times, and better planning and utilisation of truck fleets.

We recognise that VBS has added complexities to the market. It does require more pro-activeness and planning for companies transporting containers to and from the port.

Prior to VBS, trucking companies could turn up at the Port at any time. This caused congestion and we were not able to plan resource to demand.

Today we manage the flows better. Our truck volumes in the first quarter (July to September) were up 18.5% on the same period last year and we managed to reduce the average turn time by 2 minutes.

As I mentioned, we recognise that VBS has added complexities, but we are confident that processes will improve and the market will adapt to the change over time. We continue to work closely with road carriers to perfect the process and are encouraged by their commitment to seeking efficiencies.

We're also making a big investment in technology and systems. Believe it or not – nothing moves on the port without IT.

The biggest initiative we have going is the introduction of a new, state-of-the-art Terminal Management System or TMS. This is one of the biggest IT projects we have ever undertaken.

We see TMS as a key enabler for customer service and capacity improvements as well as a catalyst for a step-change in productivity. It is also an opportunity to rationalise our multiple existing applications into a single, best-practice solution.

Our existing systems have served us well, but technology has advanced significantly in recent years. This is an opportunity to really raise the bar.

We're also putting a lot of effort into our web systems which we see as key to the future of our business, in terms of e-commerce and our ability to provide good, timely information right up and down the supply chain.

We're especially keen on the transparency it can offer our customers over the location of their container at any time of the day or night – and we have expectations for milestone reporting in the future.

I do want to take us back to a few big picture issues before I finish because I know the economic situation is on everyone's minds.

There continues to be enormous volatility in the shipping market and trends are emerging internationally – as a result of cost pressures, high oil prices, the economic downturn, and rising concerns about climate change – all of which are of great relevance to New Zealand businesses.

We are seeing an increasing trend to a hub-and-spoke pattern in shipping services: larger ships and greater consolidation amongst carriers (there has been significant activity over the last 9 months); fewer port calls; more trans-shipments; and greater peaking factors putting pressure on infrastructure.

You can see here the Emma Maersk, the largest container ship ever built. By weight, she can carry around 11,000 twenty foot container units – or as measured by space, around 15,000 TEU.

It is unlikely that we will ever see ships of this size calling New Zealand Ports. The largest we see today in Auckland are the 4100s. Given the market consolidation and the need by the shipping lines to reduce their unit costs, we believe it is realistic to consider 5 to 6,000TEU sized vessels calling here within the next five years.

The trend to hubbing is upon us. At Ports of Auckland we are already doing it – our trans-shipment volumes were up 55.5% in the last financial year. As mentioned earlier in the first quarter of this year trans-shipments were up 24%. And September 2008 was an 18 month high for our container volumes, with October's result just marginally lower.

So what does this mean for New Zealand? And what does it mean for you, an Auckland-based exporter? Why should you be worried?

Well, we believe the risks in this scenario are significant.

The major risk is that, tempted to call at fewer international ports, the major shipping lines decide to base their major service networks at Sydney, Melbourne or Brisbane instead of Auckland or Tauranga.

This would mean New Zealand imports and exports could be feedered over Australia, thereby causing a longer and more costly route to get your goods to market. The supply chain would be less reliable – you would be competing for space with Australian exporters.

With this scenario playing out, one major concern is that the Australian ports are investing hand over fist – backed by state and federal government funds.

New Zealand also needs to invest in port infrastructure. If we sit back – then it's potentially the powerful international shipping lines that could end up shaping our future. And that future might not – would not – be the best outcome for all of New Zealand.

From an Auckland perspective – Port of Tauranga is busy lobbying for their Port to become the hub port for New Zealand – in effect creating an alternative Auckland supply chain that would add length and cost to your supply chain.

So to sum up...

We are here for the long term.

We have some natural advantages – we are already the logical hub port for the country. But we realise it's not enough to be in the right place.

We also have to work smarter and to make the most of the innovations and efficiencies that new technology and work practices can offer us.

This is about ensuring that New Zealand remains a competitive and attractive location from which to do business.

There are significant risks in front of us as a country and an industry.

I think there's general agreement across the port sector that we do need action to make sure the right decisions are made about investment in port infrastructure and the supporting supply chain.

In this, we would also like to ask for your support and collaboration. If New Zealand is to have a sustainable, world-class supply chain, then we need to work together.

In closing, can I say that at Ports of Auckland we understand the importance of exporting to the New Zealand economy and to all of our living standards.

Having peaked at 37% of GDP in 2001, New Zealand exports have fallen to 29%. Over the next decade or two, we need to get New Zealand back into the top half of the OECD. Frankly, it is where we belong.

Raising our exporting performance is key to this goal and we at the Port want to do our part.

Thank you for your time tonight and on behalf of the team at Ports of Auckland our sincere best wishes to you and your families for a safe and happy Christmas.