

Community Reference Group

Meeting minutes

7th December 2023, 5:30pm

TIMING	AGENDA ITEM	OWNER
5:30pm	Welcome	
5:35pm	General Business Update	Roger Gray
6:00pm	Environment Update	Nigel Ironside
6:15pm	Any other business	Julie Wagener
6:30pm	Close	Roger Gray

Attendees (apologies if we missed your name, the sign in sheet was misplaced)

Name	Organisation
Roger Gray, CEO	Port of Auckland
Nigel Ironside, Head of Sustainability & Environment	Port of Auckland
Julie Wagener, Head of Communications	Port of Auckland
Shelley Ashdown, Comms Specialist	Port of Auckland
Tim Coffey	Local resident
Paul McLuckie	Local resident

Luke Niue	Parnell Community Org
Allen Hu	Auckland University
Bill Endean	Local resident
Genevieve Sage	Waitemata Local Board Chair
Bob Tait	

General Business Update: Roger Gray CEO

Deloitte Top 200 Award

Port of Auckland was awarded the Most Improved Performance. This is a very pleasing recognition of the turnaround that has been going on at the Port for the past two years. Companies cannot self-nominate for this – selection is by a panel of assessors. We became aware of the nomination after being contacted that Port was a finalist. Judges like Jonathan Mason, Air New Zealand board member and ex CFO Fonterra he said it’s more than just the commercial transformation. It was improvement in the union relationship; change in the approach to transparency and openness to the community; cultural transformation and sustainability work. A real credit and acknowledgment to our people and what they have done and particularly the people in our unions and what they have managed to do.

Auckland Council

The council have finally come to a resolution to vote on what should go into the 10-Year Plan for consultation. The vote was to consult on two options for the future of the Port.

First is the current model which is what we are doing. The turnaround, which in the documents, is called the ‘enhanced status quo’ which will be better explained in the consultation document.

Second option is sale of a 35-year lease to an operator which effectively means the operations of the Port transitions out of Council’s hands for an upfront payment.

These are the two options that will go into the community consultation document and that consultation document will be prepared by Council officials and will be placed into the market February 2024 for four - six weeks. Council will review feedback and the Governing Body will vote on the long-term plan based on that feedback in May/June 2024.

This does present some uncertainty for staff. Some are concerned about who the operator may be; some are concerned about their futures.

As a community group have your say in the public consultation.

The port has no view on it and it is a decision to be made by the governing body. The vote was very close – 11 councillors opposed the decision to put it out to public consultation; 10 said yes and two members of the Independent Māori Statutory Board voted yes. There is quite a division within Council. If a lease is sold it is most likely the Council will lay down several conditions that they will expect from the new operator, ranging from handing back Bledisloe Wharf within 15 years and certain objectives around carbon. Once an organisation buys a lease, they will pay substantially for it upfront, 20x EBITDA as a multiple so around \$2-\$3 billion.

Don't expect them to be overly responsive to other community needs and wishes. They will come in and run this place hard because they want their money back.

Comment from Genevieve Sage (local board member): We (local boards) get to give feedback after the consultation, so it is important to feedback to the consultation as well. What people in our local board area (Waitemata) want, we will represent.

Question from the group (we have not been able to clearly identify individuals asking the questions): Recently the Mayor has been claiming the ratepayers have been propping up the Port, and I consider that misrepresentation and it probably influences the survey they did (more people wanted a sale than not). Will somebody from Port correct this misrepresentation?

Answer: It is not a misrepresentation. The container terminal, at net profit after tax when you take into account depreciation and amortisation and interest on the debt that is allocated to this, loses money. Last financial year, the terminal just broke even, the year before that it lost \$25 million a year and was continually losing money. It would generate cash at the EBITDA level but when you take into account the interest and depreciation of the assets, it's a loss maker. The Mayor is quoting me when I have said the Auckland ratepayers have subsidised containerised importers and exporters by not charging them an appropriate cost to recover the cost of capital. There was a step-change in the last few years. The construction of Fergusson Wharf North and the three cranes (\$60 million) then add to that the berth and you have \$130 million additional cost you have to recover through depreciation and we had to borrow to fund.

We are reversing the profitability issues through significant increases in pricing for land-based customers using the Port and for shipping lines. For example, the access charge to enter the Port will rise on 1 Jan from \$65 to \$95. When I arrived, it was \$8. It will continue to grow and be in line price with Melbourne or Sydney. At that level, and this is one example of many prices we are taking, we will be able to return the Port to starting to earn its weighted cost per capital which is 8.5%-9% return on equity. This year we are targeting a 5% return on equity and our cost of capital is 8.5% so we are not making enough money to replace the cost of what we are doing. An investor would not re-invest in the business - my job is to fix that.

Question from group: Do you know if your competitor Port of Tauranga is planning to do the same thing?

Answer: They have taken prices up but not as far as us. In the last annual report Tauranga, for the first time, announced a decrease in profit year-on-year due to higher KiwiRail import costs and labour. Also, year-on-year a 20% collapse in container volume. [The CE] has excess capacity in container terminal, an expansion court case and collapsing profit.

Question from group: They won't charge gate charge?

Answer: They are and it is \$47 whereas we are moving to \$95 so why leave money on the table? On the trend of pricing, there is strong encouragement from the Mayor. We are differentiating peak pricing to push more volume into non-peak hours (5.30pm-6am), and encourage weeknight and weekend night movement into the port. This aligns with Council strategy on how to better use the asset we've got rather than increase it. New Zealand is making a move to back of the clock running that will bring additional challenges around noise and there is ongoing work into dedicated freight lanes on The Strand which is still to come.

Question from group: Will the transport companies get anything out of the extra charge that didn't exist before?

Answer: The transport companies clip the margin on the way through.

Question from group: If the lease goes ahead and they pay upfront does that mean they don't pay dividend anymore after? They pay for the lease for 35 years or paying upfront...[difficult to understand on recording]?

Answer: It's the former. You are taking 20 years of profit today, they pay and what they bank on is that they could make more money than I could have. They do that through price predominately and the last 15 years of the deal, they keep.

Comment from group: Then we end up paying for it afterwards simply because they put up prices, we pay for it as a consumer, and it goes round and round.

Answer: Conversely, there is a proposal to take the proceeds of that sale and proceeds of Airport shares and establish a Future Fund of about \$3-4 billion which will generate ongoing revenue. Based on the performance of Australia Future Funds, and some superannuation, they are getting much better returns than we are giving as POAL and the Airport shares in dividends. Right now, if there was major incident in Auckland and the Port and airport were destroyed or majorly impacted the Council loses the asset. But if you're in a diversified fund spread across multiple different asset class in different locations you spread the risk. There is a lot of merit in taking the money now and investing it but you forgo future income by taking money now.

Comment from group: Not all Port purchases are upfront and, particularly in Australia, ongoing lease payments.

Answer: You either take it that way or take cash up front. If you take ongoing lease payments, the upfront payment is much less. Flagstaff is doing the recommendations to the Council, who also did the transactions in Australia. They will come up with the model that Council want – we will go along with it.

Question from group: What's the maximum profit you can make over the years?

Answer: With the current footprint, the executive and statement of corporate intent (three-year commitment) we hit \$70 million in FY26. As an executive in next three- five years targeting making \$85-\$100 million.

Comment from group: Historically with Council consultation they are very suspect on the information provided...

Answer: The consultation document will be drafted by the Council governing body and Mayor's office and we will provide information they ask for. What's included in the consultation document has nothing to do with us.

Question from group: Consultation that is going to the public – they will request information need or want from you?

Answer: Yes

Question from group: There are obviously risks in the Port. Panama Canal closing down and ships to reach NZ and Australia are going to be much larger to go round so the changing dynamics of the type of ship that have to visit this Port.

Answer: There is one ship that currently visits NZ that transits the Panama Canal that goes into Tauranga only.

Comment from group: In America and Canada, the crane company you have used here (ZPMC), the guts have been pulled out of those cranes because they have been providing information to the Chinese government. This is happening all over Europe and North America.

Answer: Totally agree with you – there are things I will not share with you. I'll just leave it at that.

Question from group: Under the lease arrangement why would any have an interest in making any capital improvements in say the last 15 years of the lease – could the lease end with a bunch of improvements needed to be made by the next person?

Answer: Very good question. Normally the lease document will require that the assets are returned with "make good" clauses as a standard equal or better to when they are handed over. If process goes ahead, we will do asset assessments of wharves, cranes and equipment that will be transferred across in the lease. One of the requirements of the company that buys the lease is they will be required to return assets as good or not better state. Organisations that do this, sweat their assets hard. Where I may replace a crane, a Chinese company may buy the lease, may not be concerned. They may not replace the ZPMC crane - they may refurbish but bring it back to the standard. Those cranes are in mixed condition now and will need to be repaired or replaced.

Cruise season

We are having a bumper cruise season with about 135 ships. In February there will be 38 alone. Disney was here with great feedback from passengers, and it is a fantastic family experience. We are looking at options on how to improve the customer experience at Princes Wharf. We ideally want to leave Hilton function room and get a more permanent set-up. EkePanuku is working with Mayor's office on future uses for Princes, particularly Queens, and Marsden and Cook when we sell those [to Council] as part of the long-term plan.

Comment from the group: Is the bunker issue being dealt with. The age and safety requirements...quite old.

Answer: The Awanuia is coming to the end of its life. The board are now reviewing options for her replacement and will decide in next 12 months. You can expect to see the Awanuia sailing for next two to three years. She is regularly inspected and passes and is safe.

Safety

We were prosecuted last Friday [1 December 2023] for the death of Amo [Pala'amo Kalati]. Sadly, he was killed three years ago in a crush incident on-board a ship. We pleaded guilty to the two charges, took full responsibility, and fined \$561,00. Made substantial reparations to the family which have been suppressed at the family's request. We also had to publish an 'Adverse Publicity Order' on our website and multiple dailies, Stuff, NZ Herald, LinkedIn. It was a terrible tragedy, and I am even more resolute on fixing safety here after listening to the victim impact statements.

Protests

Growing number of protest activity at the port largely driven by community-based groups and UNITE Union. They are focused on the importation of cargo from a line called ZIM which is Israeli. Zim have withdrawn from the market but continue have a vessel sharing agreement with another shipping line. We are expecting more protests and will work with Police to minimise any impact. The first one was the most challenging where they shut down the terminal by sitting on the road. Police did an excellent on moving them – six arrests and were trespassed. The second protest was more orderly and didn't try and disrupt the operations. Expecting up to nine protests.

Review of CRG

Is it working for you – how can we make it better and make it better for you. Provision of alcohol is a no as we are dry site.

Environmental Update: Nigel Ironside, Head of Sustainability & Environment

Low Frequency Noise Specification (LFNS) update

Working on this for a while and it is based on the Neptune Noise Label Score (NNLS) a European-derived certification programme. Over past 4-5 years made it appropriate and applicable to New Zealand. Got to that point late 2022 All NZ Port CEOs agreed to make it a requirement to access NZ ports from June 2024. The requirement is for all new container vessels (first time callers) to a New Zealand port to provide a positive certified Neptune score prior to its first arrival. The alternative to that is that can confirm they have a specific type of silencer on their auxiliary engines to keep the noise down.

We notified the lines in May 2023 and since then have been monitoring, measuring, and communicating with the lines. It is a voluntary initiative and not a legal/regulatory requirement for the lines to comply with. It is therefore an interesting endeavour for all Ports to collectively address an issue. From June 2024, non compliance by a shipping line will result in that vessel not being accepted by any NZ port.

The Neptune score is an acoustic measurement of the vessel. It is very thorough and sophisticated.

Our monitoring and observations to date correlates a negative score with public complaints. The technical work has been done by Marshall Day on behalf of all of the ports in New Zealand.

Have 19 vessels monitored in the database. Of the 10 new vessels in last six months, six have medium noise scores, two are relatively low positive and two have a negative score. Of these, the Hong Kong Bridge (voluntarily withdrawn from New Zealand) and GLS Syros (still in discussions).

For vessels that have an existing score, we have a process managing those. We have a further nine vessels to monitor. Out of 10, 20% are a problem in terms of impact on community.

For the existing callers that have generated a public complaint, six have been measured and found to have a negative score and four of those vessels have already withdrawn from New Zealand over past 12 months.

The Port CEOs have been kept updated on progress. Most ships visiting New Zealand go to several ports, so if they are problem in Auckland, they will be problem elsewhere. Although, there are some services that don't come to Auckland or go to every NZ port. The CEOs have tweaked the implementation of our standards. For existing vessels that call NZ, if a vessel is a problem at multiple ports, then they will be banned from June 2024 unless it retrofits a reactive silencer. But if it only a problem to one, or a limited number of ports, and the port(s) affected feel they can effectively manage it then they will be allowed to continue regular service post June 2024. But up to that port to nominate and work with their communities.

Comment from Roger: At certain times of the year, they have to start the second generator because they are lifting lots of reefers. The second generator becomes the noisy one. Particularly in Otago during export season but they have certain procedures to manage with communities.

Nigel Ironside: Have identified other comparative noise certifications that are we will accept and same as Neptune score. Now, we will contact lines with noise reports and whether they are favourable or acceptable to host from June 2024.

Comment from group: Quite impressive New Zealand ports have adopted a standard not underpinned by New Zealand regulation and I think you need to be congratulated on that. Most city centre residents are worried about air pollution, and I recognise despite all our talk of on-shore charging it is not going to happen unless the government decides that there is an air pollution standard that prohibits cruise ships from operating.

Comment from Roger: All credit to Nigel who has driven this initiative. We do air monitoring. None of you will see shore-based power in this port in your lifetime. There is no significant power from Transpower's grid or Vector to power a cruise ship. It would take all the electricity from the CBD. The port or the city does not have sufficient funding to do it. Central government needs to step in and fund it. The cruise lines won't pay the charges we'd need to charge to recover the costs per wharf. In the carbon debate aspiration is not going to be met by practicality without a significant investment in transition by central government which doesn't have the money.

Question from group: what are you doing to mitigate the noise from Syros ship?

Answer: There is not much we can do for that one at the moment.

Question from group: Is it a particular time?

Answer: To run the ship's systems they turn on the auxiliary engines and it is the exhaust from those engines that makes the noise. Generally, if they don't have a reefer load they don't run both auxiliary engines. Mosty have put silencers on one engine because 90% of the time they only run one of these generators. And in heavy peak season run two engines so that's why you may hear noise from a ship you have never heard from before.

Comment from Roger: We are going to shut the port down on Anzac Day morning and start our auxiliary generators to test them.

Question from group: How many complaints were there about Hong Kong Bridge noise?

Answer: About six or seven.

Any Other Business: Julie Wagener

CRG meeting improvements?

Comment from the group: It works but needs to be improved. Sometimes we are out of the loop and end up in the Environment Court. In some other community groups, the Council would release documents of every single resource consent so we were aware of what was going on, then we would get our experts in the group to look at it. Sometimes ended up in hearings and cost the Council thousands of dollars. Have a set menu but break into categories rather than an agenda.

Some of the topics we need to be kept up to date and progressively what to do.

Comment from Roger: On Fergusson Wharf: we will seek consent to complete that. Consent is to construct a wharf along northern seawall of Bledisloe Wharf in order to facilitate the transition of Cook and Marsden wharves. We have been very open about that to the Council Governing Body. Reasons are twofold: to allow us discharge two car carriers at the same time; want to tie up large cruise liners.

If Council seek us to sell back Cook and Marsden we will want to build a second car handling facility on Bledisloe.

Have meetings over in Devonport once a year maybe?

ENDS