

NEWSLETTER OF THE NEW ZEALAND SHIPPERS' COUNCIL



Issue No 3 September / October 2015

COUNCIL REPORTS

Report of the 2015 AGM

We had a fantastic turnout to our meetings on 27 August 2015 kindly hosted by Alan Piper at their KiwiRail premises. The highlight was a presentation from Chris Welsh, the General Secretary of the Global Shippers Forum and the Freight Transport Association. Chris was able to update us all on important global shipping issues ranging from container weight to competition law and climate change. Copies of his presentations will be made available shortly on our website, with synopsis of selected topics to be featured in future newsletters. Chris also spent time with Auckland based media (see coverage of his interview with NBR, reported 18 September, on our website) before flying to Wellington for meetings with Ministers, officials and Wellington-based media. The themes of the Wellington based meetings are covered later in this newsletter.

We then had an interesting and reasonably frank presentation on KiwiRail, the realities of their current business model, and the future ahead of them.

During the Ordinary General meeting we had Mark Batt from Maritime NZ present to us the New Zealand Government's view on how best to apply the requirements for verified container weighing that come into effect worldwide next year. It appears that the New Zealand Government is taking a light touch approach – however more will become clear when the consultation document is released in the coming months.

The Shippers' Council is looking forward to a productive year, with a drive for more members and affiliates, while continuing to ensure a sharp focus on representing the views of our members.

Some new faces at NZ Shippers' Council

New Zealand Shippers' Council has re-elected Mike Knowles (Zespri International) as Chair and elected Blandina Diamond (BlueScope Steel) to the role of Deputy Chair.

The appointments were made at the Councils' recent AGM, which also acknowledged the contribution of departing Executive Officer Peter Morris.

Megan Campbell, from Saunders Unsworth, has been appointed to the Executive Officer role and effective September 1 is the main point of contact for the day to day business of the Council.

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Mike Knowles has more than 20 years experience in the New Zealand kiwifruit industry as an executive with Zespri International Ltd. This includes eight years based at Zespri's European head office in Antwerp working in the operations area and subsequently as European Operations Manager. Mike returned to New Zealand in 2001 to take over the Shipping Manager's position where he is responsible for Zespri's global shipping function and strategy. He has been Chair of the Shippers' Council since 2013 and a member since 2001.

Blandina Diamond is the Logistics Manager for New Zealand Steel, and is currently on secondment through 2015 to the project team managing the integration of New Zealand and Pacific Steel. Her previous roles include 20 years in supply chain leadership and management in the New Zealand Defence Force, and Programme Manager for Lockheed Martin. She joined New Zealand Steel in 2012 as part of a newly formed Customer Service and Supply Chain Group. Blandina has been a member of the New Zealand Shippers' Council since 2013.

Megan Campbell has a background in policy, research and administrative roles across government. Prior to joining Saunders Unsworth Megan operated her own government relations business, working for a wide range of clients from not-for-profits through to multi-national corporates.

Saunders Unsworth are taking on an expanded role with the Shippers' Council, not only with the role of Charles as political consultant and Megan as the new Executive Officer. Saunders Unsworth will accelerate the goals and strategy of the council by taking on tasks related to all administrative aspects, recruitment, website re-launch, newsletters, education sponsorship and event planning. We are confident that this new arrangement will deliver the full range of benefits that are being sought as part of the initial service agreement and that will significantly contribute to the Council's goals.

INTERNATIONAL

Chris Welsh Comes to Wellington

The Council invited Chris Welsh MBE, Secretary-General of the Global Shippers' Forum to speak to the AGM. While in New Zealand Chris kindly agreed to travel to Wellington to meet Ministers and officials to discuss a number of issues on the global agenda. He was accompanied on these calls by Chairman Mike Knowles, and our Government Relations advisor Charles Finny.



Chris met with Minister of Transport Simon Bridges, Trade and Climate Change Minister Tim Groser, and senior officials from Maritime New Zealand, Ministry of Transport and Ministry of Business, Innovation and Employment.

The meetings allowed discussion on cooperation between New Zealand and the Global Shippers' Forum at the International Maritime Organisation; container weighing

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methodologies; the impact of the forthcoming UN Climate Change Conference on shipping; the impact of mega container ships on the global supply chain; and the application of domestic competition law to shipping lines.

On the **IMO and container weighing** Chris advised that cooperation had been excellent and that New Zealand had been very smart in its diplomacy. Working with likeminded members New Zealand had been able to change the preferred IMO policy to allow an alternative method to determining container weight (the original proposal was to weigh each container at port side before loading. This was totally impractical for a variety of reasons). The Shippers' Council was instrumental in lobbying Maritime New Zealand on the alternative methodology. It was good to hear that the Maritime NZ team attending the IMO negotiations had been so effective.

There are some proposals being discussed at the IMO that freight be subjected to a levy to help fund **Climate Change initiatives in developing countries**. Chris was able to talk to officials about the potential negative implications this could have for Shippers. Minister Groser was unaware of these proposals and has asked us to write to him on the matter so that he can look into it further.

The discussions on **really big container ships** (much bigger than we will ever see here) was interesting and highlighted major challenges for the supply chain.

Chris was most interested in the status of the New Zealand **Commerce Act (Cartels and matters) Amendment Bill**. He noted that this Bill was very much in keeping with global thinking. He warned that shipping lines are likely to continue opposing the Bill - their concern was probably more about global precedent than actual impact.

All up it was a most useful day. Ministers and officials have given us positive feedback and we are grateful to Chris for making the time available for these calls.

OECD UPDATES 2002 REPORT ON LINER CONFERENCES

The OECD has recently updated their 2002 report on liner conferences. It once again calls into question the carriers' arguments. The OECD reports underline the need for reform in this area along the lines of the Bill before the New Zealand Parliament.

The NZ government response to the Working Party is interesting. It confirms the intention to repeal the exemption to the Commerce Act. There's also some really interesting data/information in this report.

Also of interest is:

1. Para 14 notes that the Liner Affairs Association has confirmed that conference agreements that set rates and manage capacity are no longer in operation.
2. Para 17-19 also discusses the Kotahi Arrangement.

All papers can be found here:

<http://www.oecd.org/daf/competition/competition-issues-in-liner-shipping.htm>

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WELCOME TO NEW MEMBERS

A warm welcome to new affiliate members, whom we hope to profile in our next newsletter:

- Seatrade NZ
- Value Chain Solutions
- Netlogix

REGULATORY WATCH

Commerce (Cartels and Other Matters) Amendment Bill

The Council has been working since 2012 to extend the jurisdiction of the Commerce Act to cover the activities of the international shipping lines. This position is aligned with a recommendation from the Productivity Commission. The intention is to stop cartel behaviour as it relates to pricing decisions (anti-competitive behaviour) not vessel sharing

arrangements, which are often pro-competitive. The legislation is meant to be accompanied by Commerce Commission guidelines that define acceptable behaviour and how applications for determinations would be handled. The Commission has been keen to develop these but has been hampered by the international shipping lines' refusal to engage.

The Bill making these changes is sitting at #20 on Parliament's Order Paper. It has been through two readings and is part way through the Committee stage. It will hopefully pass sometime soon.

The opponents of the Bill are active in continuing to fight the Bill and are spreading some rather alarmist messages around the industry. They are suggesting that this will lead to poorer services, increased costs and that the changes will prove very negative for services to the South Pacific.

Chris Welsh advised us that these tactics were similar to those he has observed in other jurisdictions where the dire consequences have failed to materialise. He was very confident when talking to officials and Ministers here that these predictions would prove unfounded. Chris noted that Hong Kong, China and Japan are all taking similar action with regard to the shipping lines. Australian policy has headed in the New Zealand direction and that our shipping to the EU is already subject to near identical provisions to the proposed New Zealand law as the EU has already extended their competition law to cover international shipping.

We met recently with officials to discuss two of the rumours. One, that the Government has agreed to split the provisions relating to shipping lines in two, and the other was the concern about the South Pacific.

Officials are adamant that there has been no agreement to change anything in the Bill.

On the South Pacific they note that this issue has been given very careful consideration and was subject to specific mention in the Select Committee deliberations.

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In summary, they believe that no change to the Bill is needed as impact on shipping services to the South Pacific will be an issue that the Commerce Commission will take into account when considering overall impacts of proposed collaborations. The Commission will not be wanting to see any negative impact on services to the South Pacific. We continue to monitor these issues closely.

TRADE

TPP Update

While most characterize the TPP Ministerial in Maui in late July as a failure, it actually made enormous progress. A wide range of un-agreed issues was whittled down to three:

- The level of dairy product access into Japan and Canada (and as a consequence the US);
- Rules of origin on automobiles;
- Patent life for “biologics”.

We have not seen the text or any official reporting on TPP so this assessment is a best guess from the evidence available.

As we understand it, New Zealand has achieved duty free access into all TPP participants for everything apart from beef and dairy into Japan and dairy into the US and Canada. The US has signaled that it can commit to significant liberalization of dairy if Canada also offers some more liberalization.

Japan is offering to cut beef tariffs to 9% (substantial liberalization from current levels) and only minimal liberalization on butter and milk powders. The cheese offer is a bit better.

The Japanese agriculture position is essentially that which was agreed a few months before in bilateral negotiations with the US. The Japanese clearly believed that either the US would be able to persuade Australia and New Zealand to accept this deal, or that Australia and New Zealand would not be prepared to hold up TPP finalisation because of dissatisfaction with this deal.

As part of the same bilateral with the US Japan agreed reasonably liberal rules of origin on automobiles (much more liberal than NAFTA rules) to allow the Japanese industry to source parts from Korea, China, Thailand etc (non-TPP members). The US was also supposed to sell these liberal rules to Mexico and Canada. As with dairy and Australia/New Zealand the US failed to deliver on its end of the bargain.

The Japanese, who have for 70 years regarded the US as all powerful, appeared shocked in Maui that the US was unable to bully smaller players into accepting outcomes that they were uncomfortable with. The Japanese still appear to believe that there is no need to move from their position and that the US will, in the end, deliver Australia, New Zealand, Mexico and

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Canada. Some senior Japanese are actually suggesting that New Zealand might be asked to leave the TPP process to ease the way to a final agreement!

We understand that Canada is prepared to go further on dairy, but held back when Japan become totally intransigent.

The debate on biologics is complicated. The US wants 12 years of protection. Australia, New Zealand and some others wanted something around 5 years. There is going to be a compromise. We guess that it will be 7 years.

What is worrying is that there appears to be no formal process to resolve outstanding differences. There is now evidence of direct negotiation between New Zealand and Japan, which is positive. Ideally substantive negotiation should be successfully concluded before Ministers meet again. Another failed Ministerial could prove fatal for the negotiations

Japan and the US are pressing for a Ministerial as early as late September in Atlanta (perhaps taking advantage of leader attendance at the United Nations General Assembly in New York, to knock heads together should Ministers continue to disagree).

Unless Japan improves its offer on dairy and unless the rules of origin on automobiles are tightened slightly and unless the US can live with a 7-year patent life of biologics - there may not be any TPP.

This is a pity as the deal on the table now offers New Zealand around \$400 million a year in tariff savings at the cost of a bit under \$10 million on our pharmaceutical bill.

RAIL NEWS

KiwiRail Update

Alan Piper, GM Commercial at KiwiRail shared a very informative presentation at the latest Annual General Meeting, which was topical given the recent high profile media coverage regarding the future and funding of Kiwi Rail. KiwiRail takes the majority share of \$249 million additional transport funding over the next four years. However, the extra funds do come with strict conditions.

"KiwiRail must continue to drive significant efficiency and productivity improvements to reduce an ongoing level of Crown funding required," Transport Minister Simon Bridges said in a statement. While Finance Minister Bill English says in his budget speech that support at recent levels for KiwiRail is "unsustainable," with funding coming from the Future Investment Fund created by the partial sale of government electricity companies and a reduced holding in Air New Zealand.

"KiwiRail is integral to New Zealand's land transport system," Mr Bridges said. "This funding will allow it to deliver services and maintain the national network to a safe and reliable standard."

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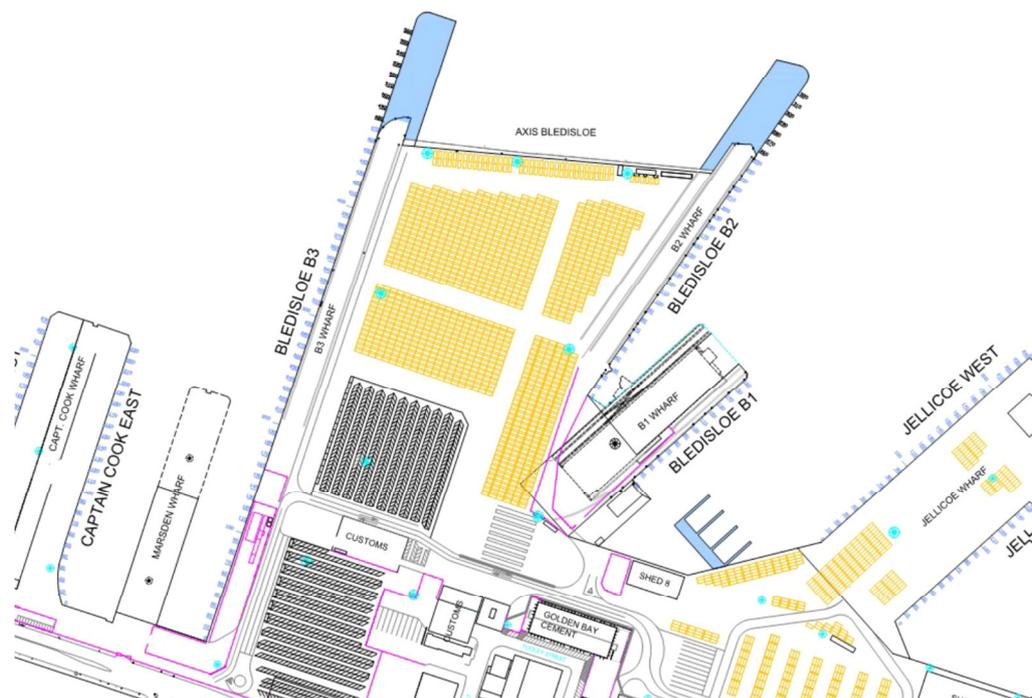
Kaimai Tunnel

In recent rail news, New Zealand's longest train tunnel, **the Kaimai Tunnel, is set for a \$50million upgrade** for the first time since it opened 35 years ago. The 8.9km Kaimai Tunnel upgrade is considered to be a real capability changer for freight transport to the Bay and is expected to boost productivity to the wider parts of the region as well as the Port of Tauranga.

PORTS NEWS

Auckland Port Development – Facts

The following is reproduced from the Ports of Auckland Development – Fact Sheet.



What are we doing and why?

The port has gone through a period of major change. We have undergone a transformation since 2011. We have put two container terminals into one and Bledisloe Terminal is now 'multi-purpose'. We have improved our processes and the way we work, significantly lifting productivity. We are now the best performing container port in Australasia.

We are lot more efficient but we are also much busier. Non-containerised cargo has doubled in the last five years and container freight is up 11.6% to nearly 1 million TEU (1 TEU = one

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20 foot container). At the same time ships have got bigger. Since 2008 the median sized container ship is up from 1,900 TEU to 2,800TEU. Cruise, vehicle and general cargo ships are also bigger. Because of this and because parts of the port were built for a different era of shipping, we don't have enough berth space. That is why we sought consent to build two wharf extensions on Bledisloe terminal.

What are the berth extensions?

We have consent for two concrete piled wharves. A 98 metre extension to Bledisloe east wharf ('B2') and a 92 metre extension to Bledisloe west wharf ('B3').

What impact will these extensions have on the harbour and harbour users?

Few vessels use that section of water because it is outside the main traffic route. As piled structures the extensions will have almost no effect on tidal currents.

Do these structures narrow the harbour?

No. The narrowest point is 889 metres between Fergusson Terminal and the Navy wharf. The distance between the Bledisloe extensions and the nearest land or structures are 1070m & 1000m.

Port of Tauranga to start dredging work

Port of Tauranga has announced that it is to start dredging work that will allow it to accommodate larger ships.

Danish dredging company Rohde Nielsen has won the tender and been appointed to deepen and widen the shipping channels from 12.9 metres to 14.5 metres depth inside the harbour and 15.8 metres outside the harbour. Work is scheduled to start in October 2015 and will be completed by August 2016.

The dredging is part of the \$350 million capital expenditure programme over the last five years to facilitate New Zealand's exporters and importers being able to access larger ships.

Contacting your executive team

Chairman, Mike Knowles E: Mike.Knowles@zespri.com M: +64 21 515 423

Deputy Chair, Blandina Diamond E: Blandina.Diamond@bluescopesteel.com M: +64 21 914 257

Executive Officer, Megan Campbell E: nzsc.executiveofficer@gmail.com M: +64 27 227 9222