TRANS TASMAN SHIPPING

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ABSTRACT

Considerable uncertainty surrounds trans Tasman Shipping and is likely to escalate with political, economic and competitive changes occurring in the near future The market has seen the balance of trade moving in favour of Australia, rates falling, over capacity, and more direct contact between shippers and ship operators

Australian port costs are out of line with the rest of the world and New Zealand

Australian stevedoring costs and productivity compare unfavourably with those of New Zealand Competition and reforms are necessary elements if the problems in Australia are to be addressed bringing about attitudinal changes and confidence in the industry Differing Government policies and availability of berths are seen as potential impediments

The anticipated open cross trading on the Tasman has the prospect of delivering both positive and negative outcomes for shippers whilst reducing the number of dedicated operators

Trade efficiencies would be facilitated by greater assess to coastal trade standardisation of shipping equipment and accelerating EDI developments

Trans Tasman shipping participants will need to adapt to changes in a planned and innovative fashion whilst handling the uncertainty

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TRANS TASMAN SHIPPING

Introduction

I would like to thank the organisers for the opportunity to speak to you today, the topic being trans Tasman shipping.

I am not too sure if our industry is much different from many others, however the level of uncertainty prevailing within our trade appears to most participants to be of an unusually high nature. Political uncertainty driven by a change of Government in Australia and the commencement of MMP in New Zealand have the potential to change our operating climate within both countries in the very near future.

This uncertainty is added to by changing economic trends and the make up of our industry. The impact on dedicated operators such as ourselves, opportunities for cross traders and the infrastructure components made up of port companies, stevedores, unions and of course, a very important element the shipper or customer, needs to be foremost in our minds. Most of those participants have made assumptions, some have devised strategies and I suspect others are just playing a waiting game to see what the future will bring in the way of changes and, as a consequence, adapting to those changes. It is highly unlikely we will all make the right projections and hence decisions.

Given the significance of the respective markets on the Tasman, it is fair to assume the impact of the trans Tasman changes will be of greater consequence for New Zealand. Currently Australia represents 20.2% of New Zealand exports in dollar terms whilst New Zealand accounts for 7.3% of Australian exports.

What I am proposing to do is to look at the major elements within trans Tasman shipping, hopefully from a very neutral point of view, driven by my desire to present an unbiased picture, whilst not wishing to disclose the assumptions and strategies my particular organisation has developed

The Market

Diagrams 1a and 1b illustrate the movements in our trade from 1993 where the east and west bound trades were more or less equal. The figures excluded bulk items, some of which are shipped by dedicated operators such as BHP and Tasman Pulp and Paper. In other words, it excludes such products as pulp, steel, grain and petroleum. The significant development is the recent change in the balance between Australia and New Zealand in favour of Australian exports. There has been a movement towards 40 ft equipment and a significant fall away in the volume of timber and timber-related products exported from New Zealand, much of which has come from the smaller ports such as Nelson, Napier and Tauranga. Given Australia's accelerating timber production, it is unlikely that the previous level of New Zealand timber exports will return

Diagram 1a

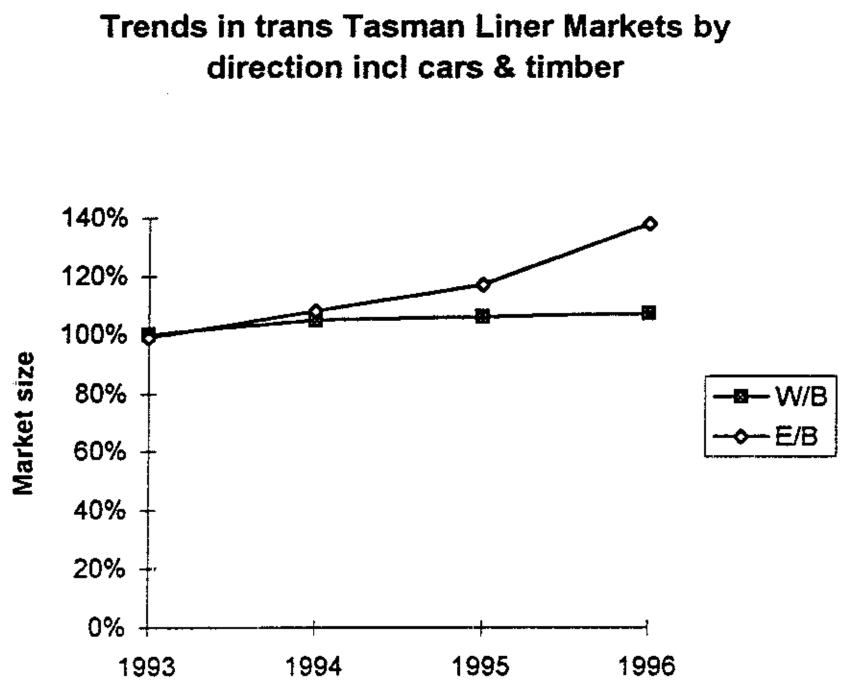


Diagram 1b

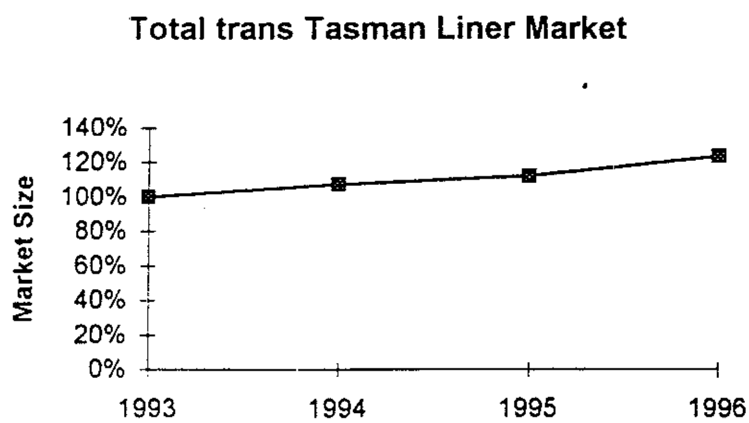


Diagram 2 illustrates the number of participants and as a consequence, capacity changes that have taken place over the last five years If you measure the capacity against the market size of less than 200,000 TEUs per annum, you will see there is a substantial over supply of capacity which has had a downward impact on rates and which I believe blows away the myth that there is not sufficient competition in our trade. Up until recent times there has been sufficient growth in the market to absorb the growth in capacity, particularly over the last four years where we estimate the growth for some years has been as high as 15%. What the competition has also done is to offer far more frequent sailings between ports, whilst at the same time, providing services for other ports such as New Plymouth and Bluff which had not previously been supplied but relied upon expensive land re-positioning.

Diagram 2

Number of liner ship operators in the trans Tasman trade (both ways)

1991		1996	
Shipping Line	**No of Ships**	**Shipping Line**	**No of Ships**
Union Shipping	3	Union Shipping	3
New Zealand Line	1	ANL	2
ANL	2	Tasman Express	2
Tasman Express	2	BHP	2
BHP	1	Tasman Pulp & Paper	2
Tasman Pulp & Paper	2	South Pacific Shipping	8
PFL	2		
Total No of Ships	**13**	**Total No of Ships**	**19**
Total TEU Capacity	**182,000**	**Total TEU Capacity**	**280,000**

Other changes to the market have included the lessening influence of freight forwarders within the trade. This is not to say that their impact is not significant but we believe it is fair to assume their role is less in driving freight rates and controlling freight as distinct from providing the add-on services and brokering role they have traditionally carried out. Most forwarders have recognised they need to rely upon their own capabilities to secure their business rather than depending upon shipping company rebates and wholesaling, the latter meaning adding a margin to the shipping company's rate.

Competition between the lines and a growing desire to control cargo on the part of shippers has seen more direct contact between the shipping company and shipper. This is further verified by the refrigerated trade where the ship operators are becoming more and more involved in the door / door movement of refrigerated cargoes. Shipping lines such as my own company have not until recent years been directly involved in the refrigerated trade. We responded to one client's requirements and are reluctant to rely upon forwarders for support.

For both competitive reasons and shipper preference, major ship lines have also become more involved in door / door operations of dry cargo where the lines have been required to provide a one stop shop. This has been driven by the shippers' desire for comprehensive freight tracking, keeping to a minimum the number of transport chain contacts, addressing the issues of cargo security and integrity and, where demand has required, the development of specialised handling methods and equipment. By way of example, my own company has developed equipment for particular products to provide maximum pay loads whilst meeting the land transport requirements of both Australia and New Zealand, which also provides greater product protection.

Diagram 3 illustrates the trend in rates over the last five years which, given the inflation rate, shows a real reduction in rates and highlights the impact of increased competition within our trade. Unlike other trades, the Tasman does not have terminal handling charges or port service charges and I suspect is unlikely to do so in the future. I am not sure this would be the view of some non-Australasian lines proposing to commence services on the Tasman

Diagram 3

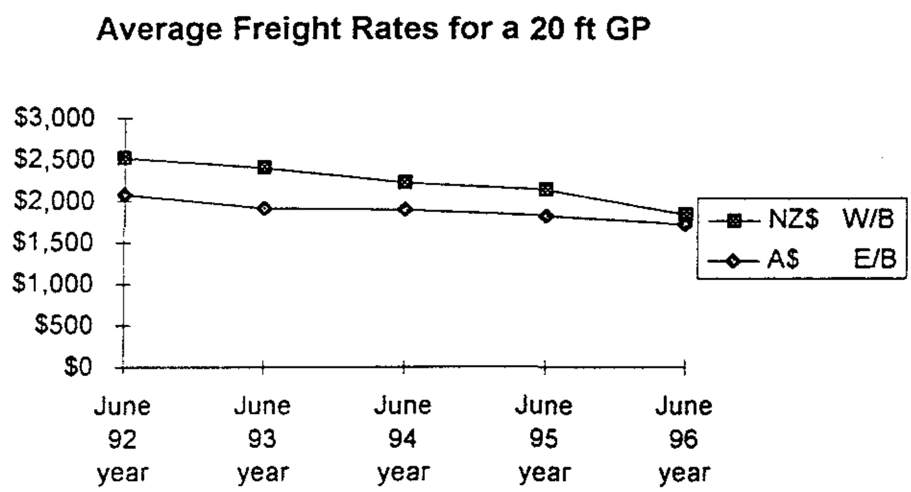


Diagram 4 is a summary of the results from a recent customer survey conducted by our company which to a large extent shows that the shippers in our trade are very similar to those elsewhere in the world where their main concerns are listed in order of priority.

An interesting feature we have seen over recent years is an increasing tendency to regard the respective markets as a part of their domestic distribution, undoubtedly impacted by CER and all that it entails.

Diagram 4

Expectations from trans Tasman shippers

Data from a recent customer survey conducted by Union Shipping

Important features of a shipping line

(In order of priority)

1. Quality of service e.g. communication of information, professionalism of staff & responsiveness
2. Competitive freight rates
3. Convenience & regularity of schedules
4. Maintaining schedules

Most desired developments in the trans Tasman trade

Lower freight rates

More frequent services & quicker transit times

Australian port reform

EDI for the industry

Ports

Diagram 5 illustrates both in real and relative terms the costs associated with ports in New Zealand and Australia. As can be seen from the diagram, there is considerable disparity between the costs of the two countries. The size of the relevant ports, particularly Melbourne and Sydney, and the supposed notion of economies of scale, make the differences harder to understand and raise questions about the real intentions within Australia to make significant changes to their port costs. Recent port charge reductions and privatisation of small ports in Australia are commendable but the overall cost differences remain significant. International competitiveness, stimulus to local exports and State Government revenues are just some of the issues that State Ministers have to grapple with. The Australian Federal system itself tends to confuse the situation where the policy desires of one Government need the support of another Government, often with different agenda or controlled by a different party. The low profile issues of port charges in the wider community and the nature of port ownership in Australia are likely to retard them being addressed unless shippers make a concerted effort to raise their profile.

Diagram 5

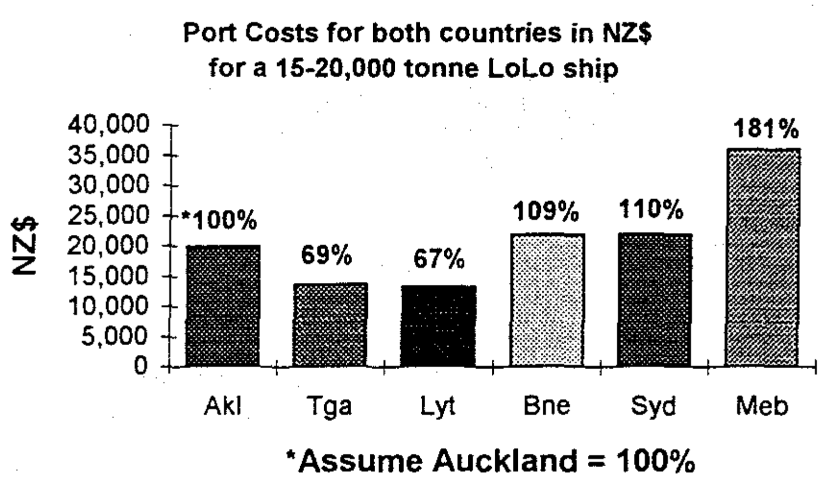
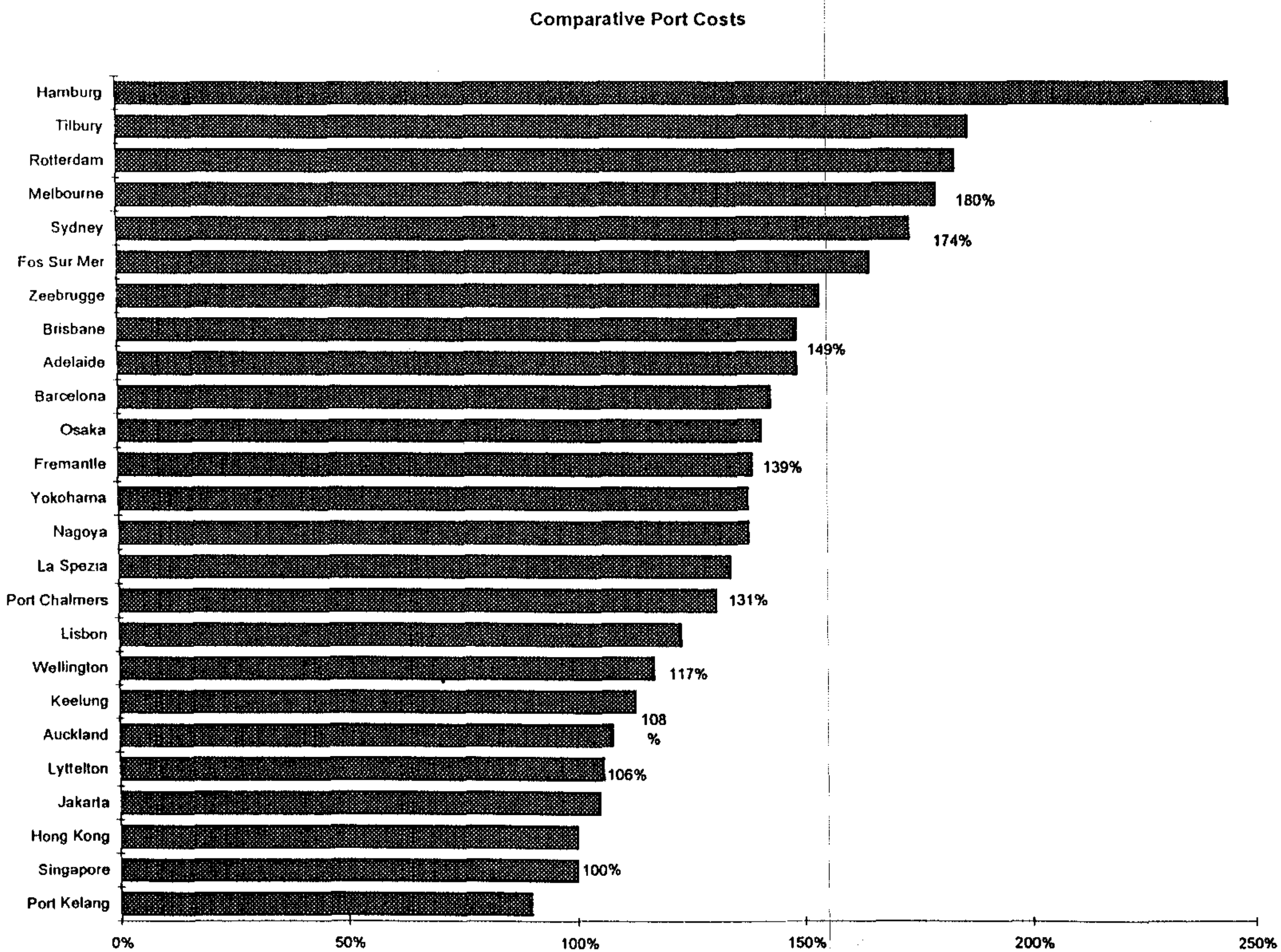


Diagram 6 illustrates the international comparison across a range of vessels for both countries which further highlights the situation which Australia finds itself in with respect to port costs

Diagram 6



Comparative Port Costs
Hamburg
Tilbury
Rotterdam
Melbourne
Sydney
Fos Sur Mer
Zeebrugge
Brisbane
Adelaide
Barcelona
Osaka
Fremantle
Yokohama
Nagoya
La Spezia
Port Chalmers
Lisbon
Wellington
Keelung
Auckland
Lyttelton
Jakarta
Hong Kong
Singapore
Port Kelang
180%
174%
149%
139%
131%
117%
108
%
106%
100%
0%
50%
100%
150%
200%
250%

We see the principal issues for ports apart from costs, being the need for further reform, the attitude they will take, particularly in New Zealand, towards becoming involved in stevedoring and other related services which with recent Commerce Commission decisions and investigations illustrating that this needs to be watched carefully. The real fear within the industry is that the gains made over the last five to ten years have the chance of being lost by the desire of port companies to expand and gain greater control of the various elements within the transport chain. The potential for this to bite back on both shippers and ship operators needs to be borne in mind.

Stevedoring

Diagram 7 highlights the relative stevedoring costs of both countries and *diagram 8* illustrates the productivity levels being achieved in both countries

Whilst *diagram 8* shows considerable difference in productivity between the two countries, our experience with RoRo vessels shows reasonable similarities in productivity. However, we also experience fluctuations within and between countries for various reasons. In Australia, we believe there is a lack of competition, with two dominant players in the stevedoring area. It is essential this is addressed if the industrial record and culture are to be improved There is a significant lack of confidence in the Australian stevedoring industry and most maritime industry participants remain sceptical as to whether significant improvements will eventuate. Of concern is the availability of berths to new stevedoring operators and whether the desire for reform by the Federal Government could well be frustrated by the attitudes of the State Governments with respect to berths. Berth availability is a necessary element for competition which will drive reform, providing the necessary cultural and attitudinal changes.

Diagram 7

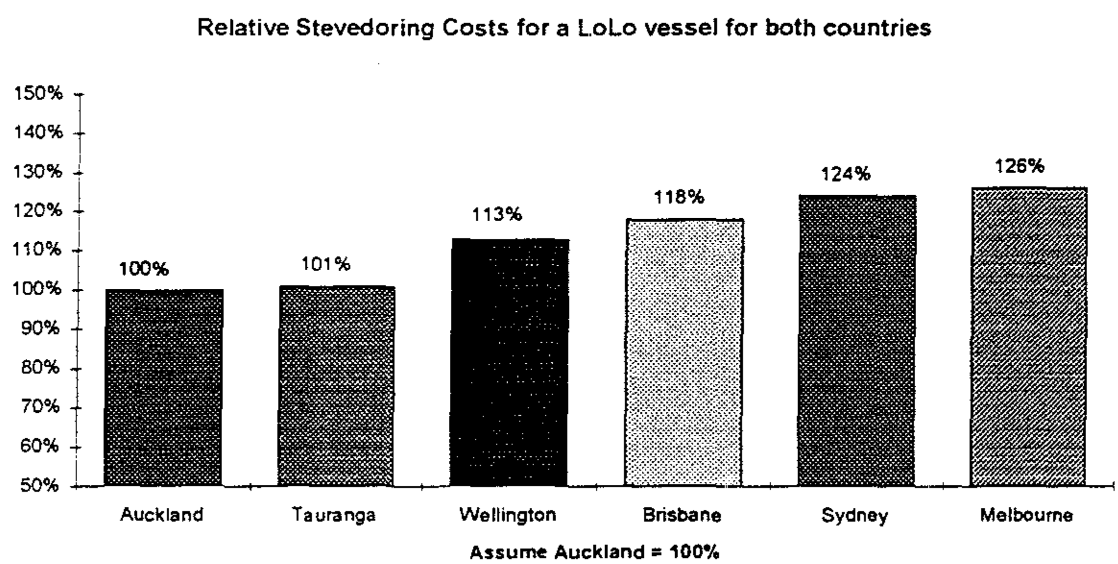
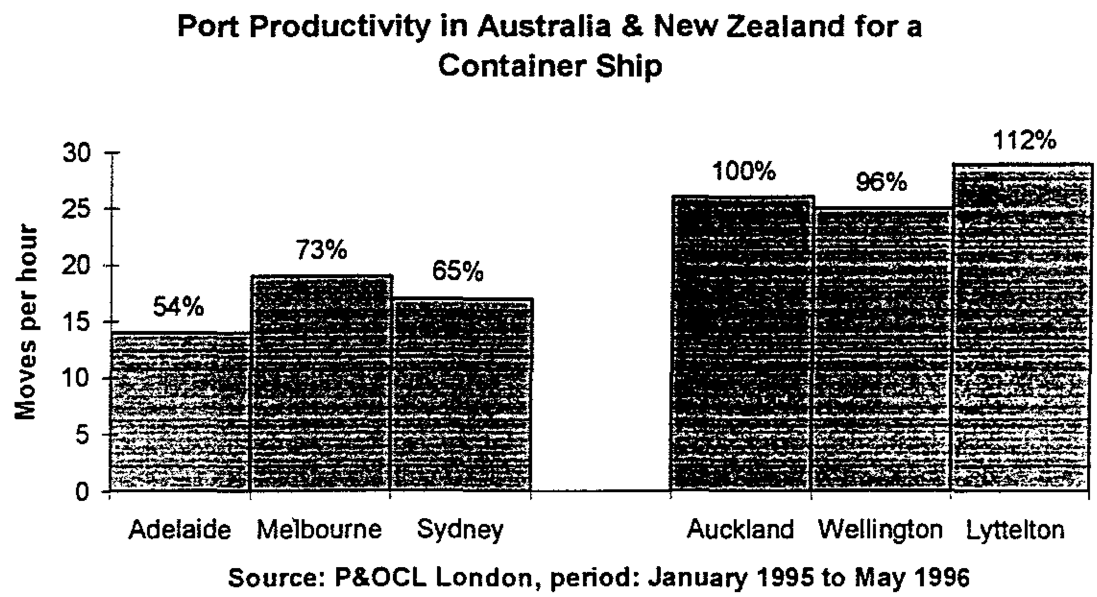


Diagram 8



Just as with the Accord being challenged, which is nothing more or less than an agreement between two unions, the reforms required on the wharves in Australia will only be achieved by the attitude and actions of the participants other than the Government. All the Government can do is change the rules under which the participants operate. It is a matter of whether the interested parties are prepared and have the courage to make the necessary changes and whether the normally very conservative organisations, the unions, are prepared to accommodate the changes.

I must say that 20 years of observation in Australia make me somewhat sceptical but I remain hopeful that change will eventuate, particularly when I have seen what has been achieved in New Zealand

Increased Competition on the Tasman

Some people refer to the introduction of cross traders as deregulation; a cross trader being a ship operator whose ports of call go beyond Australia and New Zealand This is a misnomer as there is no regulation other than that imposed by the maritime unions of Australia and New Zealand to protect their members manning ships in this trade

Cross trading has commenced and is growing Full cross trading now appears more likely to evolve over time as distinct from happening as an event at a particular time Undoubtedly there will be some industrial disruption as the process evolves but most participants in the trade regard it as inevitable and as a consequence, are strategising as to its likely impact on their particular businesses

Diagram 9 illustrates the impact that cross trading could have where we have isolated significant trading legs and shown the number of sailings available before and after cross trading. Undoubtedly competition will increase resulting in an impact on some rates. However, service levels to some ports will lessen and it is highly probable that the Australian exporters will be better served than those in New Zealand. Recent moves by Columbus and Blue Star Lines highlight the likely trend where the smaller New Zealand ports will see cargo gravitating towards Auckland. This will obviously disadvantage many New Zealand exporters. This is further accentuated by the dominance of various ports, where 75% of New Zealand imports from Australia emanate from Melbourne and Sydney, whereas 32% of New Zealand exports to Australia emanate from Auckland.

Diagram 9

Number of direct port calls, or with one port call in between, per year

Port Calls	Dedicated Operators	Cross Traders	Total
Auckland - Sydney	146	186	332
Auckland - Melbourne	105	186	291
Sydney - Auckland	109	110	219
Melbourne - Auckland	132	154	286

Source: Union Shipping New Zealand Ltd, July 1996

Whether that impact will be of a long term nature is unknown but certainly the cost of entry for cross traders is low and pricing will be driven by their assessment of marginal cost, incorporating equipment, logistical costs and whether in fact they want to sell directly to the market or wholesale to existing operators.

Undoubtedly, the impact of cross trading is uncertain, if for no other reason than the cross traders themselves may change their schedules from time to time with the view of targeting cargo.

Whilst we see a role for dedicated operators, particularly in some of the lesser serviced ports within New Zealand and Australia, not all the existing operators will survive. All existing dedicated operators have differing motives and financial structures which undoubtedly will drive various strategic directions making it difficult to predict how they will react. However, we are confident some will exit the trade; those remaining likely to flag out and employ substantially cheaper foreign crews to man their vessels.

There is real potential that service levels for some ports and shippers will decline; some ports, particularly Auckland, will benefit from substantial growth but this in turn will put pressure on domestic distribution and will develop to a large extent a one way flow. It is therefore possible that cross trading may encourage more domestic coastal shipping within New Zealand, while some ports will see their through puts decline which for some may in fact threaten their viability.

We would also expect to see rate differentials with possibly the Auckland rates being the lowest within New Zealand and the others reflecting the costs of centralisation and the costs associated with providing certain service levels to various ports within New Zealand.

There is an expectation that the transition to full cross trading will generate industrial disputation, aggravated by changing industrial legislation in Australia, together with other areas the Federal Government wish to address in the maritime arena.

There are a number of other issues but time precludes me amplifying them to any great extent, however they are worthy of consideration.

The first of these is the possible extension of trans Tasman shipping into the provision of additional coastal services, both within New Zealand and Australia, the latter being covered by the current New Zealand dedicated operators. In the case of Australia this will obviously require the removal of cabotage which in turn has the potential to enable the dedicated operators to compete more favourably on the Tasman, more particularly the cross traders.

There has been much publicity about the growing world shortage of qualified sea going staff The uncertainty in our trade has to a large extent discouraged staff development, particularly when the costs are significantly higher than those of some overseas countries The real impact for countries such as Australia and New Zealand will be availability of suitably qualified and experienced staff to take up shore based maritime infrastructural positions. In the long term, with the current trend, many of these shore positions will need to be filled from overseas, presumably at a premium

We also see considerable inconsistencies between and within Australia and New Zealand on the issue of pilot exemptions. We appreciate there are some ports where exemptions would simply not be appropriate However, we see other instances where a closed shop mentality or excessive caution are being brought to bear, thereby imposing unnecessary costs on ship operators By way of example, my own organisation who had previously enjoyed pilot exemption at a New Zealand port, lost it for no other reason than a change in the method of international ship tonnage measurements

The trade between Australia and New Zealand is also inhibited and made more expensive by the lack of uniformity in container and pallet dimensions. Much of Australia's domestic cargo, storage and distribution facilities are calibrated to the Australian pallet size which is inconsistent with the rest of the world. We could see considerable cost savings being made if the Australians were to make the quantum leap to international standards

Ballast water exposure and research is a sensitive issue for both countries and it is pleasing to see that a combined effort is being harnessed to address the issue. Ship operators remain concerned about the likely impact of any regulations and it is hoped that considerable consultation will take place before definitive action is taken

At this stage there is inconsistency between Australia and New Zealand in the introduction of EDI, particularly where it pertains to Customs. New Zealand appears to be well behind Australia in developing the appropriate systems and it is hoped that any inconsistencies between the two countries in other areas do not flow over into this one. We would also like to see the development accelerating within New Zealand.

Conclusion

I am sure there are other issues that could have been addressed within this paper but I have endeavoured to highlight the more significant ones

Whilst I realise uncertainty will always be an ongoing feature of shipping, I am sure the level of uncertainty at the moment within this particular trade is of an unusually high nature and for that reason is unsettling for all participants in the Tasman trade. Investment decisions and planning are inhibited by the uncertainty and the dangers, particularly for New Zealand exporters, are probably greater if for no other reason than the relative sizes of the two countries' export markets.

Whilst reform is inevitable and welcomed, there are some downsides that need to be borne in mind. For example, it is worth considering that any substantial improvement on the Australian waterfront is likely to enable Australian exporters to compete more favourably with those in New Zealand in trades beyond both countries.

The challenge for us all is to be innovative and flexible enough to handle the short term uncertainty to produce long term returns and justify long term investment.

That concludes my presentation and I am happy to answer any questions that you may raise.