

THE PRODUCTIVITY COMMISSION

SUBMISSION ON INTERNATIONAL FREIGHT TRANSPORT SERVICES ISSUES PAPER – JULY 2011

To: The Productivity Commission

Submission on: International Freight Services Issues Paper – July 2011

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Marstel is an independent bulk liquid terminal operator providing storage and handling services to third party customers for their product. Marstel was founded in 1987 with the purchase of the petroleum and chemical terminal operations of BP New Zealand. Today Marstel has facilities in 9 locations in Australia and New Zealand.

Marstel is making this submission because the company is a port infrastructure provider reliant on the sufficient availability of port land at a reasonable cost. Port land is a scarce resource which is under pressure from alternate uses. It is not clear that the regulatory framework in New Zealand adequately enables or fosters consideration of the long term effects of the availability and allocation of port land.

The bulk liquid storage and handling industry

The bulk liquid storage and handling industry is a highly specialised warehousing and infrastructure business with operations in port precincts where import, export and distribution of product takes place. Marstel does not own nor engage in the resale of the products stored at our terminals. The principal function of an independent terminal operator in the distribution chain is to provide

intermediate storage and handling for products in a given market area for redistribution to smaller storage facilities at the end user's own facilities. The products generally go to, or come from, large manufacturing plants and form a critical component of the manufacturing supply chain. These manufacturing plants support a large range of downstream industries.

Bulk liquid storage infrastructure contributes to the competitive advantage of regions that have access to such terminals through a deep water port. Most international ports provide for bulk liquid storage operations as part of their standard operations.

In 2004 the bulk liquid operators at the Western Reclamation in Auckland commissioned economic report for the bulk liquid terminals (Wynyard Wharf Bulk Liquid Economic Study, Philip Donnelly and associates, May 2004). The findings of the report included:

- (a) The total output was conservatively estimated to have increased Gross Domestic Product of the regional economy by between \$266M and \$337M per annum:
- (b) Including an allowance for second-round effects, the Wynyard Wharf bulk terminals facilitated in the order of 3100 to 4000 full-time equivalent jobs:
- (c) Second-round downstream output was very conservatively estimated between \$767M and \$1051M per annum, which implied annual output of \$1230M to \$1514M:
- (d) The estimated value to Auckland of all future Wynyard Wharf dependent activity was "\$5 billion, with a contribution of \$900 million to GDP".

In 2009 the Auckland Regional Council in association with the bulk liquid operators commissioned a second economic report (Wynyard Wharf Bulk Liquids Industry Supply Chain Analysis, Covec Ltd, 2009). Covec's estimate was two to three times higher than the Donnelly report and estimated that the bulk liquid industry provides inputs to industries that generate around \$733 million in value added within the Auckland region and associated employment was over 8,500 full time equivalent jobs.

Marstel provides bulk liquid storage and handling services to customers in the plastics, chemicals, petroleum products, mining, packaging and food industries. As Marstel's operations form a critical part of our customers' supply chain, the inability to access a cost effective supply of bulk liquids, or a safe and competitive alternative, may put into question the viability of these manufacturing plants and affect a large range of downstream business. The alternate to bulk liquid storage is the import of

packaged bulk liquid in drums, flexibag or isotainers, or ultimately the import of finished product which avoids the entire production value chain and its associated employment and economic impact. Bulk storage is often preferred over other methods of supply for security of supply reasons and transportation or storage risk. A manufacturing plant may not wish to rely on packaged product for this reason alone.

The range of bulk liquid products handled can be categorised as chemicals, petroleum products, and edible fats and oils. Products include solvents, monomers, alcohols, corrosives, propylene oxide, combustibles, diesel, motor spirit, fuel oil, biofuels, lube oils, bitumen, soft oils, hard oils, tallow and liquid animal feed. Marstel also provides product blending and repackaging services.

TYPICAL BULK LIQUID PRODUCTS

Chemicals	Petroleum Products	Edible Fats and Oils
▶ Solvents	▶ Diesel	▶ Soft Oils
▶ Monomers	▶ Motor Spirit	▶ Hard Oils
▶ Alcohols	▶ Fuel Oil	▶ Tallow
▶ Corrosives	▶ Biofuels	▶ Liquid Animal Feed
▶ Propylene Oxide	▶ Lube Oils	
▶ Combustibles	▶ Bitumen	
▶ Liquid Fertilisers		

Each product has unique storage and handling requirements. Some bulk liquids, such as fuels, are used in large volumes and can be easily transported long distances via pipelines. Many products cannot be transported long distances by pipeline because they have smaller volumes, or are extremely hazardous, or require heating. For example heavy fuel oils, bitumen, tallow, vegetable oils, chemicals and biofuels.

The bulk liquid storage and handling industry is characterised by a complex regulatory environment, significant levels of safety and environmental protection, engineering technology, high barriers to entry, and significant start-up capital requirements. The industry is capital intensive requiring long time frames to generate a return on investment. The global trend is for proprietary terminal operators, such as the oil majors, to outsource their bulk storage and handling requirements to independent terminal operators who are able to handle a wider range of products and customers to create the diversity and scale required to gain a return on investment.

The essential element for the storage and handling of bulk liquids is long term access to suitable port land at a reasonable cost. However, the land available for the development of bulk liquid facilities is

extremely limited. For example, there are no viable relocation options available at this stage for the relocation of the majority of bulk liquids from the Tank Farm in Auckland.

Submission

Q1 Are there important issues that may be overlooked as a result of adopting an economic efficiency perspective for this inquiry?

Marstel agrees that New Zealand interests are best served by promoting the economic efficiency of the entire logistics supply chain. The danger of analysing part of the chain in isolation may be to miss the real economic benefit on the component to the region or country.

For example, the highest return from the use of port land is containers. A land constrained port will naturally allocate land to container operations in preference to bulk or other uses. However, containers may be able to be handled more or equally efficiently at an alternate port, whereas bulk liquids may not be able to be efficiently handled at an alternate port due to their specific storage requirements, transportation cost and risk. Ports which are required to maximise their return from their scarce land resource may not efficiently allocate that resource to the benefit of the region or country.

Q3 Which components and component interfaces warrant greater attention? What is the evidence that they are inefficient? What contribution could changes make to an improvement in the overall efficiency of the freight system?

Ports: Specifically Auckland and Tauranga and the potential duplication of services to the detriment of the efficient allocation of resource available.

Potential changes:

- Merger.
- Enabling private investment in Ports of Auckland in a similar manner to the Port of Tauranga.
- Enabling ports to act under wider return criteria to demonstrate an efficient return to the region or country to justify an investment and/or seek alternate funding.
- A more active investment role for national or local government where ports demonstrate indirect benefits to the region by the provision of port infrastructure beyond the return the ports are able to generate for their own activities.

Q4 What environmental considerations should fall within the scope of this inquiry? What issues are of particular importance?

Transport: If bulk liquids are not able to be stored in locations near to their end use, and bulk storage is still required, then they will be transported by road (rail is not an option because of the double handling costs at receipt and delivery). In the case of hazardous chemicals, this will greatly increase both amount of heavy traffic and the risk of transport. As large multi-national companies are risk averse this alone may be enough for trigger a decision to develop alternatives to manufacturing in New Zealand.

“A focus of this inquiry is how well ports in this country, taken together, serve the interests of New Zealand exporters and importers. This is a key test of how well they contribute to the overall wellbeing of New Zealanders.”

Marstel agrees this should be the focus of inquiry. A particular focus should be on the resources of Ports of Auckland and Tauranga and the benefits of a closer relationship from a resource allocation perspective.

Q5 To what extent is there effective competition for customers between New Zealand ports? Has this led to lower prices and incentives for productivity improvements?

There is no competition between Port of Tauranga and Ports of Auckland for bulk liquid storage. The result of Ports of Auckland becoming land constrained is that it naturally concentrates on providing services which generate the highest return per square meter. At this stage the port is not planning to allocate land for bulk liquid storage in the future.

Q13 What levels of investment have ports undertaken in recent years? Are they consistent with accessible and efficient services to exporters and importers? Is there an over- or under-investment problem in ports?

There appears to have been an underinvestment in the Ports of Auckland. The port is now land constrained and may not be able to effectively provide for the region's future requirements.

Q14 Does New Zealand have too many ports for a small country? If so, what barriers are inhibiting rationalisation?

A closer relationship between the Port of Tauranga and Ports of Auckland may result in a more efficient allocation of resources. The inquiry should consider the political, regulatory and economic barriers that have prevented this occurring in the past.

New Zealand geographically favours a much greater transport role by sea but restrictive practices, labour or otherwise, have constrained this in the past.

Q15 Has local-authority ownership of majority stakes in New Zealand's commercial ports inhibited, enhanced or been neutral for the development of a more efficient and productive port sector?

Q16 What changes in governance, regulations or ownership would offer the best means to improve port performance for exporters and importers?

Marstel agrees that ownership structure of Ports of Auckland may result in a danger that local authorities may not act in the ports best business interests when weighing up competing funding requirements for the region. A more transparent ownership structure with some private investment could act as an additional check on the investment and funding decision making for the port. Public private ownership as with Port of Tauranga is clearly a better model than 100% Council ownership as with Ports of Auckland.

Q57 Should decisions on investments in ports and in the associated infrastructure links to ports be left to the judgements of the individual suppliers of the separate components? Or would some sort of overall strategic plan provide useful guidance and some assurance that complementary investments will happen?

Q58 What is the scope for greater consolidation of ports, greater vertical integration of ports with domestic transport operators, or more use of long-term agreements between shippers and port companies, as possible means to overcome coordination problems and achieve more efficient international supply chains?

An integrated strategic approach to the efficient use of the resources of the Port of Tauranga and the Ports of Auckland would likely benefit the national interests.

From Marstel's perspective it is not clear that vertical integration of port companies into their customer's activities would result in a more efficiencies. The Ports of Auckland recently took an

ownership position in a barge for bunker fuel delivery to its port. The new barge appears less cost effective than the previous bunker supply arrangement, or alternate arrangements which the port's customers such as Marstel are willing to put in place. Marstel is not aware of other ports in Australasia which have taken ownership of vessels calling on or servicing its port. This situation created an inefficient monopoly outside the Port's area of expertise.

Q73 What is the best way to achieve efficient decisions and coordination for the large, lumpy and interdependent investments that typically occur along international freight supply chains?

1. Ensure that the investment decision references the wider regional or national interests.
2. Create an environment which provides certainty for the parties willing to make the investment.
3. Ensure that industry requirements and contribution to economic wellbeing are fairly and adequately balanced against popular public opinion, urban redevelopment and local body projects.

Q74 What factors would favour the choice of decentralised vs. centralised strategic planning?

Marstel considers that there is a clear requirement for a more centralised planning environment for strategic port assets. The experience of the bulk liquid industry in Auckland demonstrates a clear coordination failure that would benefit from the coordination of a central government led strategic plan for port infrastructure.

Q 78 Has this issues paper covered the key issues? What other questions need to be asked?

Q79 What are the most important issues for the Commission to focus on to achieve the greatest improvements in the efficiency and productivity of New Zealand's international freight transport services?

1. What consideration is there for the long term provision, or creation, of port land to enable ports to effectively serve the New Zealand's economic interests?
2. Does the current regulatory framework cause Ports to focus too narrowly on their own commercial return without enabling consideration of wider regional economic benefits?
3. Should there be greater local or national government involvement in port planning and input into investment which has the potential of wider economic benefit than to the ports alone?
4. Should there be some ability for private investment in the Ports of Auckland?

5. What are the resource efficiencies of merging the Port of Tauranga and Ports of Auckland?

BULK LIQUIDS LOGISTICS AND STORAGE PROCESS

