

A large cargo ship is silhouetted against a vibrant orange and red sunset sky. The ship is positioned on the left side of the frame, with its complex superstructure and masts clearly visible. The sea is dark and calm, reflecting the low light of the sun. The overall mood is serene and industrial.

Roadways to Waterways

Enhancing New Zealand's Surface Transport Options

A strategic issues and options paper developed for the Minister of Transport
by the New Zealand Shipping Federation

September 2006



Transmittal

Hon Annette King
Minister of Transport

Dear Minister

Roadways to Waterways

It is my pleasure to present you with the New Zealand Shipping Federation's draft strategy document, *From Roadways to Waterways: Enhancing New Zealand's Surface Transport Options*.

The document was prepared with the agreement of former Minister of Transport, Hon David Parker. It is intended as a basis for a fully developed maritime transport strategy to complement government's strategies for cycling, road and rail.

Addressing a perceived gap in New Zealand's surface transport policy, the draft strategy is intended to make the most of the potential of the maritime sector and coastal shipping in particular as an efficient, effective, safe, sustainable and environmentally friendly alternative to road and rail transportation.

Our approach is predicated on the simple proposition that the maritime sector and its related infrastructure are a national resource that can and should have a meaningful place in any integrated surface transport strategy for New Zealand. Like its counterparts in Europe and the United States, the strategy has as its goals reduced road congestion, improved environmental performance of freight transportation, enhanced transport intermodality and national and regional economic development.

We recommend that the Ministry of Transport, as a matter of priority, further develop this document into a draft Maritime Strategy for consultation with key stakeholders with a view to completion by the end of the 2006/07 financial year.

We welcome the opportunity to contribute our ideas and look forward to further discussion with you and your officials.

Yours sincerely

Rod Grout
President
NZ Shipping Federation

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Preamble

This draft strategy has been prepared for the Minister of Transport by the New Zealand Shipping Federation.¹

The document provides the basis for a formal maritime transport and related ports infrastructure strategy that will complement the government's strategies in respect of walking and cycling, road and rail.

Supporting government's 2010 vision for transport in New Zealand, the strategy preserves the benefits of a liberalised operating environment, whilst proposing measures for promoting the maritime sector and coastal shipping as a meaningful part of the New Zealand Transport Strategy.

The goals of the draft strategy are consistent with government's vision statement. They are to:

- realise the potential of the maritime sector to reduce road-freight congestion;
- improve environmental performance of freight transportation;
- enhance transport intermodality; and
- contribute to national and regional economic development.

The document is divided into six sections:

Section 1 outlines a brief history of the coastal shipping industry in New Zealand and recent steps to address the decline in New Zealand operated coastal services.

Section 2 describes the policy, legal and funding frameworks within which the maritime sector operates.

Section 3 identifies the obstacles and issues hampering the ability of shipping to contribute to New Zealand's transport vision.

Section 4 describes the potential contribution to the government's goal of an integrated, sustainable and environmentally friendly transport network.

Section 5 specifies the options for enhancing the contribution of the maritime sector and coastal shipping sector to New Zealand's transport outcomes, drawing on international exemplars.

Section 6 recommends a programme of joint government-industry action.

¹ For details of the Shipping Federation, see Appendix A.

Executive Summary

The importance of the maritime sector and coastal shipping as a part of New Zealand's transportation networks has long been acknowledged as a matter of principle.

In practice, however, NZ-flagged coastal shipping and its related infrastructure have been in steady decline over more than four decades.

The reasons for this are various, but significant among them has been the diminished competitive neutrality between transport modes as a result of the substantial and continued subsidisation of road and rail transport. This and the failure to integrate maritime transport into regional and national surface transportation strategies have meant that the most economically self-sufficient, efficient and environmentally friendly form of transportation is discouraged in favour of the least.

The fact this is occurring at a time when the costs of maintaining and improving road and rail infrastructure are increasing only underscores the problem and the size of the associated opportunity costs.

The focus on road and rail is of course understandable. However, the net effect of present policy is that government is relying on only two of the three legs of the surface transportation stool. Government's vision for an affordable, integrated, safe, responsive, and sustainable transport system by 2010 promises to be less than optimal as a result.

The neglect of maritime transportation and coastal shipping locally stands in marked contrast to Europe and the United States where "short sea shipping" and its promotion are explicitly recognised as a means of reducing road congestion, enhancing environmental responsiveness and assisting economic development.

That potential is no less real in the local context. It is highlighted - albeit negatively - by the fact that if the freight carried by New Zealand's reduced coastal fleet (outside the Cook Strait) was shifted to land-based transport, it would mean an additional 180,000 20-tonne truck movements on our state highways each year.

Even at present levels, if the freight carried by New Zealand's coastal fleet - outside the Cook Strait - was shifted to the roads, it would mean an additional 180,000 20-tonne truck movements on our state highways each year

The converse is also true, underscoring the significant potential for the maritime sector to help reduce the pressure on New Zealand's road and rail networks, and thus contribute meaningfully to government's transport vision.

Capturing that potential will not be easy, but neither does it have the complexities or fiscal implications of other aspects of the surface transportation network.

The tasks are, in our view, two-fold:

- the enhancement of the viability of marine transport and coastal shipping as a transport option through appropriate policy settings and government machinery; and
- the alignment of national and regional goals and infrastructure investment to ensure optimal integration of the surface transport modes.

These tasks are not government's alone. Capital investment in coastal ships is largely a matter for industry, just as advancing the public interest in the best transportation outcomes is a matter for government. We conceive of it as a partnership that starts from the proposition that shipping and its related infrastructure is a national resource which is worthy of development and proceeds from there.

We conceive of it as a partnership that starts from the proposition that shipping and its related infrastructure is a national resource and integral to the development of a truly integrated surface transport system.

Government's policies in respect of the sector will be critical to the job of rebuilding the visibility and credibility of the maritime transport option. Accordingly, New Zealand's surface transport strategy should be refocused to include:

1. enhancement of coastal shipping as a transport option, through appropriate policy settings and increased funding;
2. enhancing responsibility for the development of the maritime and coastal shipping at the policy level within central and regional government;
3. development of a coordinated national ports policy and, assistance with ports infrastructure development;
4. establishment of a maritime promotions unit to work with the shipping industry to promote coastal shipping to:
 - cargo / freight owners;

- regional councils; and
 - ports owners and operators;
5. expansion of investment in off-road freight solutions and an extension of eligibility criteria to include coastal shipping and related infrastructure;
 6. establishment of a maritime outputs class within the Land Transport Programme with a focus on investment in coastal shipping and related ports infrastructure;
 7. introduction of a maritime training programme.

These are not radical proposals. Nor do they involve the type of market distortions that might be occasioned by such measures as the reservation of coastal cargo for New Zealand flagged ships. They are a package of initiatives aimed at restoring a measure of competitive neutrality to the transport modes and capitalising on the benefits of maritime transport as the most fuel-efficient, safe environmentally friendly and high capacity form of freight transport.

1 Background

Introduction

Once an integral part of New Zealand's transport network, NZ coastal shipping and its related infrastructure have undergone a period of extended decline. The potential of the maritime sector as a core part of New Zealand's surface transport network has been acknowledged by government. However, efforts to integrate shipping into a coherent transport strategy have been limited and the potential of the industry overlooked as a result.

History

Geographically isolated from its markets, New Zealand has had a long and continuing dependence on the international maritime sector for its economic and social well-being.

That dependence has been mirrored in a similar reliance on coastal shipping which, in the absence of alternative surface transport infrastructure through the 19th and early 20th century, was integral to the efficient and effective movement of people and goods around the country.

That remained the position for an extended period, with the register of New Zealand operated vessels continuing to grow into the 1930s. However, with the development of the road and rail networks and the availability of transport alternatives, the New Zealand coastal shipping fleet began a slow, but steady, decline.²

The removal of the short-haul restriction on road transport in 1983 accelerated that decline. This, and the heightened competition offered by rail were other developments that took their toll on coastal shipping operating outside the Cook Strait.

By the mid 1990s, the number of New Zealand flagged ships involved in coastal shipping had reduced significantly. Even so, a perceived lack of competition within the industry resulted in the passage in 1994 of section 198 of the Maritime Transport Act in order to allow international ships transiting the New Zealand coast to carry coastal cargo. This further decreased the viability of the New Zealand-operated industry.

Where, in 1994 there were 15 New Zealand flagged ships carrying general coastal and trans-Tasman cargo outside of the Cook Strait, today there are only three.

² Report of the Shipping Industry Review, *A Future for New Zealand Shipping*, (December 2000) 19.

The diminishing competitive neutrality between transport modes arising from government's increased investment in road transportation further exacerbated the industry's problems. In consequence, where in 1994 there were 15 New Zealand flagged ships carrying general coastal and trans-Tasman cargo outside of the Cook Strait, today there are three.

Ironically, this low point for shipping has come at a point when the logistical, fiscal and environmental limitations of the road and rail networks are becoming increasingly evident.

Addressing the decline

In 1995, to compensate for the removal of domestic preference that occurred with the Maritime Transport Act 1994 and provide some redress for decreasing competitive neutrality between transport modes, the then government amended the Transit New Zealand Act 1989 to provide funding for outputs that offered efficient alternatives to road transport.³

This amendment was the origin of the current "rail and sea freight services" funding allocation. It allowed territorial authorities, regional councils and Transit to submit funding proposals for efficient alternatives to road transport.

The change was meant to benefit coastal shipping. However, in practice coastal operators found themselves ineligible for funding under the criteria applied. Negligible provision was made for barging and none was allowed for the development of a coastal shipping or ports infrastructure. For the most part, the industry's concerns were unaddressed - a position that persists today.

In the face of this funding anomaly, market liberalisation and the competitive imbalance resulting from government's subsidisation of road usage, coastal ship operators were prompted to call for the reinstatement of coastal cargo reservation, or 'cabotage',⁴ for New Zealand ships. Seen at the time as the only option available to the industry, it became a dominant focus. Other, possibly more fruitful, avenues for working with government were neglected as a result.

The reservation issue became a dominant focus for coastal ship operators, with the result that more fruitful possibilities for working with government were overlooked.

³ Transit New Zealand Act 1989, s 3D. Now subsumed by the provisions of the Land Transport Management Act.

⁴ 'Cabotage' refers to the reservation of a country's domestic trade to shipping operators of that country.

The Shipping Industry Review 2000

In 1999, with a change of government, the maritime industry asked the government to review the state of the maritime industry and measures to develop New Zealand's coastal shipping options.

In August 2000 a Shipping Industry Review was announced by Minister of Transport, Hon Mark Goshe.⁵ The reviewers were asked to make strategic recommendations on what could be done to increase New Zealand's participation in shipping and maritime services.

Representing a wide array of business, union and maritime interests, the reviewers reached consensus on a number of key points. Significant among these⁶ was the acknowledgment of the need for a viable and sustainable New Zealand domestic shipping industry that is competitive in costs and services and applies best practice in its operations.

The need for measures to provide a more equitable trading environment for coastal shipping was also acknowledged and unanimity or substantial consensus was reached on initiatives intended to enhance the viability of the coastal shipping industry.

"The 2000 Review supported the need for a sustainable domestic shipping industry that is competitive in costs and services and applies best practice in its operations."

Despite these recommendations, progress in advancing coastal shipping and related infrastructure has been limited. A post Shipping Review discussion group, known as the Shipping Dialogue Group, was established in 2004. However, the diversity of the interests represented on the Group and the intermittent nature with which it has met, has meant that its contribution to the government's transport vision has been limited.

More positively, government has agreed to include coastal shipping in the next Surface Costs and Charges Study. This is a welcome step and we expect that that the Study will provide baseline data on the relative efficiencies of transport modes for freight transport⁷ that will reliably guide future transport policy decisions.

⁵ The review panel comprised The Chair, Mr Ian Mackay (former Chair of the Maritime Safety Authority), Mr Dave Morgan (National President of the New Zealand Seafarers' Union), Mr Graham Cleghorn (Board Member - NZ Manufacturers Union); Captain John Deeney (Master Mariner); Mr Rod Grout (President NZ Shipping Federation); Mr Trevor Smith (Chair, Shippers' Council).

⁶ Report of the Shipping Industry Review, *A Future for New Zealand Shipping*, (December 2000) above, 6.

⁷ Ministry of Transport website (<http://www.transport.govt.nz/surface-transport-costs-and-charges/7>) (last accessed 19 June 2006).

Summary

Despite its history as an integral part of New Zealand's transport network, NZ coastal shipping and its related infrastructure has undergone a significant decline. The development of transport alternatives and the abolition of domestic preference have played their part in this, as have the market imbalances caused by government subsidisation of roads and, more recently, rail.

To date steps to address this decline have not resulted in any meaningful change in government funding or policy settings. The opportunities for the maritime industry and coastal shipping to function as part of a truly integrated transport strategy for New Zealand have been neglected as a result.

2 Operating environment

Introduction

The policy, legal, and administrative frameworks within which the maritime industry operates reflect the government's priorities for the future of New Zealand transport.

Although intended to reflect central government's objective for an integrated New Zealand transport strategy, these frameworks reveal a number of critical gaps in both government policy and the machinery of government as they relate to maritime transport and coastal shipping.

Policy

Government's commitment to an integrated land transport strategy is repeatedly underscored by Ministerial Statements and its principal policy documents, *The New Zealand Transport Strategy*, and, more recently, the *Transport Sector Directions Document 2006/07*.

The New Zealand Transport Strategy

In December 2002, government released the New Zealand Land Transport Strategy ("**NZTS**"). This is the key statement of transport policy. It is intended to guide decision-making and act as a reference point for all who wish to contribute to government policy and planning. The NZTS vision states:

*By 2010 New Zealand will have an affordable, integrated, safe, responsive, and sustainable transport system.*⁸

Speaking in Parliament on the release of the NZTS, then Minister of Transport, Hon Paul Swain, said:

Today I released the Government's New Zealand Transport Strategy and introduced the Land Transport Management Bill. The New Zealand Transport Strategy allows, for the first time, all modes of transport—road, rail, sea, and air—to be looked at in an integrated way.

⁸ Minister of Transport, NZTS (December 2002), 4.

Two years later, the government made it clear that it expected significant changes in the level of support available to coastal shipping as a result of the NZTS and the LTMA. Then Associate Minister of Transport, Hon Harry Duynhoven said:

Now that the Land Transport Management Act is in force, land transport funding will be available for proposals, including for new coastal shipping services, which make a compelling case in terms of contributing to the vision and objectives of the New Zealand Transport Strategy.

The Act therefore enables coastal shipping to receive government land transport funding through Transfund's National Land Transport Programme. This is provided that proposals are made to Transfund by approved organisations, such as a regional council or territorial authority.

In summary, these provisions put coastal shipping on the same footing for land transport funding purposes as rail, or road, or public transport.⁹

Transport Sector Directions Document 2006/07

The government's vision of a safe, integrated and sustainable transport network is again given expression in the Transport Sector Strategic Directions Document 2006/07 ("**TSSD**"). The TSSD sets out the government's priorities for achieving the cross-agency objectives of the NZTS¹⁰ and emphasises the need for cooperative action across the transport sector.¹¹

Several aspects of the TSSD have relevance for coastal shipping and are in line with the potential contributions of the coastal shipping mode. In particular, the TSSD calls for "more integrated sector wide planning"¹² in the transport sector and notes the need to "identify gaps and barriers to achieving integrated planning".¹³

⁹ Harry Duynhoven, Keynote address to the *Ports Shipping Forum*, April 2004.

¹⁰ Minister of Transport, TSSD (December 2005), 1.

¹¹ *Ibid*, 3.

¹² *Ibid*, 1.

¹³ *Ibid*, 16.

Legal and administrative framework

Land Transport Management Act 2003

The Land Transport Management Act 2003 ("**LTMA**") establishes government's priorities for the future of transport policy and funding. Modal integration, environmental responsibility, sustainability and efficient and effective allocation of funding are core objectives. The machinery of government is also modified to establish new transport agencies and alter the functions of existing ones.

Whilst the Act's title suggests an exclusive focus upon 'land transport', it is explicit in including coastal shipping (including transport by means of ferries or barges) and associated infrastructure within its definition.¹⁴

"Although the title suggests a focus on land transport, the LTMA is quite explicit that 'land transport' includes coastal shipping and its associated infrastructure."

Land Transport New Zealand

Land Transport New Zealand ("**LTNZ**") is responsible for implementing the LTMA's funding and approval framework.¹⁵ Its central objective is to allocate resources and undertake its functions in a way that contributes to an integrated, safe, responsive, and sustainable land transport system.¹⁶

In meeting its objective, the Authority must exhibit a sense of social and environmental responsibility, which includes:¹⁷

- avoiding adverse effects on the environment; and
- ensuring that early and full consideration is given to land transport options and alternatives.

LTNZ is also responsible for administering the National Land Transport Fund ("**NLTP**"). This allows it to provide funds to "approved organisations", including, among others, regional councils and territorial transport authorities, for approved activities.¹⁸

¹⁴ LTMA, s 5.

¹⁵ Ibid, s 66.

¹⁶ Ibid, s.68.

¹⁷ Ibid, s 68(2).

¹⁸ Ibid, s 10.

In deciding to fund an activity, LTNZ must be satisfied, that:¹⁹

- the activity or activity class contributes to the Authority's objective, including its social and environmental responsibility, in an efficient and effective manner; and
- the activity or activity class has, to the extent practicable, **been assessed against other land transport options and alternatives.**

Transit New Zealand

Transit New Zealand ('Transit') is also governed by the LTMA. It is responsible for operating the State Highway system in a way that contributes to an integrated, safe, responsive, and sustainable land transport system.²⁰

The relevance of Transit to coastal shipping is that, like Land Transport New Zealand, it must give early and full consideration to land transport options and alternatives.²¹ This allows Transit to consider where coastal shipping might help avoid adverse effects on the environment or acknowledge the views of affected communities.²²

Regional Land Transport Strategies

From a coastal shipping perspective, the need to consider regional land transport strategies is significant.

Regional strategies must be prepared by every regional council.²³ Regional land transport strategies must contribute to the overall aim of achieving an integrated, safe, responsive and sustainable transport system. They must also identify an appropriate role for each land transport mode in the region (including freight traffic, public passenger transport, cycling, and pedestrian traffic), and specify land transport outcomes sought by the region and the strategic options for achieving those outcomes.²⁴

The scope for coastal shipping to be addressed in the context of regional land transport strategies is considerable. Further, given that many regional councils hold significant ownership interest in port facilities,²⁵ shipping is more likely to be considered in the context of a regional land transport strategy. Indeed, under the current legislation, shipping activities cannot be funded in any other way.

¹⁹ LTMA, s 20(3).

²⁰ Ibid, s77(1).

²¹ Ibid, s77(2)(c).

²² Ibid, s77(2)(a) and (b)).

²³ Land Transport Act 1998, s 175.

²⁴ Ibid, s 175(2).

²⁵ More information on local government ownership of New Zealand ports can be found in Appendix B.

However, the fact that regional land transport strategies and port facilities are often seen only in regional terms - rather than as part of a wider and interlinking national transportation network - means that coastal shipping barely features, if at all. This is potentially significant to the development of a coherent maritime transport strategy and is a matter that we discuss under the heading "Issues and Challenges" in Section 3 of this document.

Funding

The only current government funding allocation that is relevant to coastal shipping is set out in the 2005/06 National Land Transport Programme. LTNZ has allocated \$20 million over 10 years for "rail and sea freight services". This is part of the government's allocation to efficient alternatives to road transport and it appears to encompass coastal shipping.

To date, however, funding from the rail and sea freight services allocation has been limited to providing operational subsidies to support the shift of freight from road to rail or barging. No funding has been allocated to coastal shipping.

Summary

The government's policy on land transport management is predicated on the development of an integrated and sustainable land transport system. Moreover, it is explicitly contemplated that shipping (coastal shipping in particular) will be a central part of New Zealand's land transport strategy for the future.

The legislative mandate of the relevant government agencies is consistent with these aims. Agencies have an obligation to consider transportation alternatives that contribute to an integrated, safe, sustainable land transport system. Further, the NLTP and regional land transport strategies allow for the funding of coastal shipping and so provide the means to give effect to government's intent.

Accordingly, on its face the legislative, policy and administrative framework for New Zealand transport planning appears sufficient to ensure that maritime transport and coastal shipping are duly recognised.

However, on closer examination it is clear that the maritime sector receives at best peripheral consideration. The reasons for this and the challenges to be addressed are outlined in section 3 below.

On its face the legislative, policy and administrative framework for New Zealand transport planning appears sufficient to ensure that maritime transport and coastal shipping are duly recognised.

However, closer examination shows that the maritime sector receives at best peripheral consideration.

3 Issues and challenges

Introduction

Despite the emphasis upon cooperative action across the transport sector ²⁶ and government's explicit intention that the maritime transport should be considered in that context, there is little evidence that this is occurring.

To the contrary, efforts to achieve any meaningful development in maritime transport policy have been frustrated and the potential represented by the maritime sector and coastal shipping has not been capitalised on as a result. Against a backdrop of increasing road transport demand and costs and changing international shipping trends that omission is serious.

Despite government's emphasis upon cooperative action across the transport sector and its explicit intention that the maritime transport should be considered in that context, there is little, if any, evidence that this is occurring.

This section explores this problem and the emerging challenges that need to be addressed to ensure that the potential contribution of the maritime sector and coastal shipping to New Zealand transportation is capitalised on. Particular problems include:

- representation for coastal shipping and maritime interests at a transport policy and funding level;
- an agency focus on administrative versus modal integration;
- government under-investment in shipping;
- funding of shipping and related infrastructure;
- shipping trends;
- ports infrastructure and management;
- regional competition; and
- workforce training.

²⁶ TSSD, 3.

Representation for shipping

A major reason for the lack of government support or policy options to develop coastal shipping is the historical narrowness of its representation at policy level in the machinery of government. This is perhaps at odds with the fact that two government agencies have nominal policy responsibility for maritime transport - Maritime New Zealand ("**MNZ**") and the Ministry of Transport.

However, of the two MNZ has a circumscribed role. For all that it operates within a wider context of promoting economic development, its dominant focus is safety.²⁷ This safety orientation means that MNZ currently lacks the capacity to analyse and address the range of issues faced by coastal ship operators.

The Ministry of Transport also has a mandate to consider maritime transport policy. However, the Ministry's Maritime Unit is small and under-resourced. Consequently, it struggles to provide an adequate level of policy advice and representation. This is not helped by the political and policy focus on road and rail transportation issues. A limited connectivity with LTNZ is also evident.

As a consequence, there is a general lack of visibility of issues in the maritime sector and, more particularly of opportunities presented by the sector to contribute to New Zealand's transport options. The Ministry, LTNZ, MNZ, Transit and regional councils either do not have adequate information on coastal shipping or the capacity to incorporate coastal shipping into their analyses.

This has resulted in the relegation of coastal shipping in policy development and an associated lack of government support. This, in turn, diminishes competitive neutrality and reduces market perceptions of maritime transport as a viable transport option. In a vicious cycle, the consequent lack of demand results in less visibility for the sector and even less government investment.

The lack of visibility of coastal shipping and maritime issues has resulted in the relegation of coastal shipping in policy development and an associated lack of government support.

This, in turn, diminishes competitive neutrality and reduces market perceptions of maritime transport as a viable transport option. In a vicious cycle, the consequent lack of consumer demand results in less visibility for the sector and even less government investment.

²⁷ MNZ website (http://www.msa.govt.nz/about_us/about_intro.asp).

Administrative versus modal integration

Whilst the LTMA, the New Zealand Transport Strategy and the Transport Sector Strategic Directions document promote the goal of modal integration,²⁸ to date the emphasis in practice seems to have been on agency integration.

As a result, land transport policy continues to be dealt with in a fragmented rather than a co-ordinated manner, which limits the potential for efficiencies derived from integrated modes.

There is, for example, no comprehensive policy approach aimed at identifying and creating efficiencies where:

- one mode could alleviate pressure on another, such as heavy cargo being removed from congested and strained road and rail networks and being transported instead by ship; or
- modes could provide efficient feeders to each other, such as cargo being transported by coastal ship from a provincial area directly to a major port for export, or goods being transported by rail directly from factories to their nearest port.

This fragmented approach to coastal shipping makes for inadequate co-operation between coastal shipping analysts and analysts who deal with other modes. In particular, co-operation is lacking between the Ministry, LTNZ, MNZ, Transit and regional councils. As a result the benefits of coastal shipping are simply not being identified and explored.

The benefits of coastal shipping are simply not being identified and explored.

Government under-investment in shipping

Road and rail receive a substantially greater government investment than coastal shipping and its related infrastructure. The 2006/07 Budget made the following transport appropriations:

- maintenance of local roads: \$172 million;
- maintenance of State highways: \$198 million;
- transport demand management, walking and cycling: \$20 million; and
- rail and sea freight: \$2 million.

In the case of rail, more than \$200 million of public funding has been committed and the demand for additional funding is projected to be substantially greater.

²⁸ See, for example, the TSSD, 4: The TSSD identifies the nationally important cross-sector transport priorities that must be addressed collectively by government transport agencies to achieve the NZTS objectives.

This disproportionate investment has resulted in diminishing competitive neutrality for coastal shipping as a mode. With the true costs of road and rail transport not being met by their users the market is distorted, reducing incentives for the use of maritime transport.

The problem is occurring despite a strategic priority of the TSSD that future transport decisions need to be made by “factoring in their true costs”.²⁹ The 2005 Surface Costs and Charges Study, describing the year 2001-2002, points out that road users meet only 62% of the true cost of the road network, while rail users pay 77% of the total cost of the rail network.³⁰ This is in marked contrast to users of coastal shipping, who meet all of the costs associated with the development of their industry, including capital port infrastructure costs.

Among the consequences of the present policy direction are suboptimal outcomes that promote the most inefficient and unsustainable transport modes at the expense of the least. This is something that the Surface Transport Costs and Charges Study into shipping will undoubtedly underscore.

The 2005 Surface Costs and Charges Study, points out that road users meet only 62% of the true cost of the road network, while rail users pay 77% of the total cost of the rail network.

Funding of shipping and related infrastructure

As noted above, the funding of coastal shipping and related infrastructure is explicitly contemplated by Land Transport New Zealand's governing legislation and transport policy documents. LTNZ and Transit New Zealand are also required to give early and full consideration to land transport options and alternatives when meeting their objectives and regional councils are approved organisations for the purpose of LTNZ's transport funding allocation.

Given that regional councils have a large stake in many of New Zealand's ports, this provides a potential point of synergy between ports, local government and the shipping industry. There is also statutory provision for regional councils to cooperate in the preparation of their regional land transport strategies.

However, there are four major problems for the coastal shipping sector in accessing funding through LTNZ, not least being the fact that:

- there is very little funding available (\$2 million per annum to be shared between rail and sea freight);
- LTNZ has effectively excluded coastal shipping from its funding criteria in respect of sea freight, making the sector effectively ineligible for funding;

²⁹ TSSD, 7.

³⁰ Ministry of Transport, *Surface Transport Costs and Charges: Summary of main findings and issues* (March 2005).

- Regional councils do not identify strategic options for which cooperation is required with other regions when preparing regional transport strategies; and
- LTNZ has no internal capacity to encourage coastal shipping, support the development of ports infrastructure, or have shipping and ports considered as an option or alternative when considering land transport programmes.³¹ Other transport agencies are similarly ill-equipped to give proper consideration to coastal shipping and ports infrastructure.

MAERSK PLANS TO CUT PORTS

24 August 2006

By ANDREW JANES - STUFF

Shipping giant Maersk aims to call at just two primary ports and three secondary ones in New Zealand - and drop four altogether - in a move that will trigger port rationalisation and have widespread ramifications across the transport sector.

The Danish shipping line is dominant in New Zealand, controlling about 40 per cent of the market - more than twice as big as its next competitor.

It is in the midst of a major review of its port calls following its merger with P&O Nedlloyd last year.

Maersk New Zealand managing director Tony Gibson said the ultimate aim was to move to two major ports - one in each island - plus three secondary ports throughout the country with coastal feeder services between the ports.

Shipping Trends

The current trends in coastal shipping are negative. Among the consequences are fewer options for transporting freight, lack of employment in the sector and increased opportunity costs.

Developments in international shipping are equally discouraging. First, 'conferencing' - the practice of a group of ocean shipping lines acting collectively to set rates and offer services on specific trade routes - no longer takes place. This means international shipping services and on-shipment between New Zealand ports by international shippers maybe less reliable. Similarly, the service rates are less stable. These trends create uncertainty for ports and undermine any reliance that the government may have in international shippers as an integrated part of a wider transport strategy.

³¹ Despite LTMA, s 68(2)(b)(ii).

Secondly, ships are bigger and make fewer calls at New Zealand ports. This means not only increased competition for a diminishing trade, but also that many ports are investing in costly infrastructure to entice such ships to visit. This typically occurs at the expense of coastal shipping facilities.

Ports infrastructure and management

A feature of the focus on and competition for international ship visits is the fact that, in many cases, ports infrastructure is incompatible with coastal shipping. Roll on, roll off ("RORO") facilities - generally the best suited to coastal shipping - are limited. Ports are usually equipped with cranes suitable for loading and unloading container ships. The result is inefficiency for coastal ship operators who must supply their own cranes or other loading equipment. This problem is exacerbated by the trend toward larger ships and need for larger and more specialised facilities.

The problem is amply illustrated by the fact that cement silos on wharves, for example, are paid for by cement owners. Similarly, the Interislander must fund a new roll-on, roll-off berth at CentrePort to the tune of \$3 - 5 million. This stands in marked contrast to the investment by port companies for international shipping facilities.

Exacerbating these problems is an increasing interest on the part of port companies in property management. Ports, such as CentrePort in Wellington and Ports of Auckland, have found that property development provides more lucrative returns. This leads to a situation, potentially severely detrimental to the future of freight transport in New Zealand, where coastal shipping berths and equipment must make way for harbour-side development. While the latter may be attractive and desirable, a strategic approach to policy is required to ensure tradeoffs against the wider transport system and economy are properly taken into account.

The apparent lack of concern with the needs of coastal shipping is another consequence of the industry's lack of visibility and ports' preoccupation with international shipping in an increasingly competitive market. In this environment, coastal shipping is seen as a distraction, if it is seen at all.

Whilst this might be understandable in an environment where ports are congested with international cargos, it is harder to understand in the New Zealand context.

Regional competition versus national vision

Trends in international shipping are also leading to a distinction between primary and secondary ports. The implications of this are significant and underscore the importance of a vibrant coastal shipping industry to facilitate feeder services between ports.

Despite this, investment in facilities for coastal ships continues to be marginalised in favour of efforts to secure international traffic. This climate of competition rather than cooperation reflects the fact parochial interests are being allowed to take precedence over national ones.

Given that most ports are owned by local bodies, this outcome is at odds with regional governments' obligation to identify strategic options for which cooperation is required with other regions.³² when developing their regional land transport strategies. This lack of cooperation limits the extent to which a strategic approach can be taken to the maritime mode and the promotion of intermodality at a local level. Important opportunities are being lost for regional economies, as well as in the wider transport system as a consequence.

The situation also underscores the absence of a national maritime strategy to guide investment decision making at a local level.

Maritime training

A sound maritime skills base is fundamental to achieving a viable and expanding coastal shipping sector. A recent paper prepared by the New Zealand Merchant Service Guild, with input from several unions and employers, identified employment and training opportunities as significant problems in the coastal shipping industry.³³ New Zealand's pool of licensed foreign going or coastal masters and deck officers, as well as qualified marine engineers, is diminishing rapidly.

Given the declining industry, cadets and trainees find it difficult to obtain the amount of sea service required under Part 32 of the Maritime Rules. In this regard, it is noteworthy both that this rule is due for review and that New Zealand's criteria for a voyage to be classed as "foreign-going" sea time are more onerous than Australia's.

Secondly, trainee numbers are considered to be low as a result of competition from foreign workers and (consequential) emigration of New Zealand trainees. This problem is exacerbated by a worldwide shortage of officers. The frequency of employees being "poached" by other employers disincentivises employers from investing in training. Linked to this problem, qualified candidates supplied by redundancies, or from the navy and fishing industry, are often regarded as preferred candidates because less training is required for them to attain foreign going certificates for the merchant sector. Further, the current build-up in the Royal New Zealand Navy will reduce the availability of ex-navy candidates for some years.

Finally, an ageing workforce is compounded in the shipping industry by removal of a retirement age. A lack of retirement incentives makes it difficult for younger employees to move through the ranks and lower the age profile in the industry. At least 30% of seafarers are over the age of 60 years.

³² LTMA, s175(2)(m).

³³ New Zealand Merchant Service Guild *Training in the Maritime Industry*.
<<http://www.nzmsg.co.nz/Training%20in%20Maritime%20Industry.pdf>>

Summary

Coastal shipping is suffering from a sustained relegation in its representation at the policy level and in official thinking generally. This is occurring when international ship visits are declining and ports are engaged in inter-regional competition for the trade that remains. It is now clear that this has resulted in heavy and, in many cases, over-investment in international shipping facilities at the expense of both coastal shipping and the national interest.

The potential for coastal shipping to contribute to enhance intermodality and national and regional transport solutions is diminished accordingly.

THE CHALLENGES

1. Lack of adequate representation and visibility at the policy level.
2. Lack of modal integration in policy development.
3. Under-investment in coastal shipping and significant investment in road and rail infrastructure.
4. Shipping trends:
 - nationally, towards a less viable sector; and
 - internationally, towards larger ships, which make fewer calls at New Zealand ports.
5. Competition between ports for international calls, impairing efficiency and pushing out coastal shipping.
6. Inadequate ports infrastructure for dealing with coastal ships.
7. Lack of employment and training opportunities.

4 Principles and potential

Introduction

The development of coastal shipping is fully consistent with government's transport and wider economic objectives. This alignment underscores the industry's potential as a core component of New Zealand's national and regional surface transport strategies.

Coastal shipping has enormous potential to reduce pressure on our road and rail networks, increasing the economic efficiency of the transport system.

Economic transformation

Economic transformation has been identified by the Government as one of three priorities for its third term. It has been described as:

*...raising productivity, building a skilled workforce, raising research capability and investing in our infrastructure.*³⁴

Coastal shipping has enormous potential to contribute to this goal, by reducing pressure on our road and rail networks, increasing the economic efficiency of the transport system and creating economic opportunities.

As the NZTS acknowledges, coastal shipping and rail together provide opportunities to reduce the impact of heavy vehicle transport on regional arterial roads.³⁵ Rail alone, however, cannot address the worsening road congestion and related infrastructure pressures. Like the road network, rail has a fixed capacity and requires considerable capital investment to remain viable, let alone expand on many routes.

Thus, a key response is to ensure that there is a more rational spread of cargo across all three surface transport modes, not just one or two.

Seen in these terms, shipping, and its related infrastructure are necessary components of the transport system and a national resource. Accordingly, they must be better integrated into New Zealand transport planning to complement and enhance other transport options. Future transport policy and regulation needs to better reflect this fact and take account of the risks to economic wellbeing³⁶ that arise from sub-optimal investment in less efficient transport modes.

³⁴ *Budget 2006*, Executive Summary.

³⁵ *Ibid*, 10.

³⁶ *Ibid*.

The economic development opportunities presented by coastal shipping extend beyond the efficiency of the national transport system. Coastal shipping is also a major potential contributor to regional economies. Regional authorities have a large stake in ports infrastructure and significant growth and development - as well as better utilisation of existing infrastructure - can stem from the role of ports, barging facilities and coastal shipping in regions.

Sustainability

The task of ensuring the sustainability of transport options and integration, requires a focus that is broader than direct economic benefit. Regard must also be had to environmental and health costs, and the needs of future generations.³⁷

The NZTS acknowledges that promoting alternatives to roads is an important part of minimising the adverse environmental effects of land transport.³⁸ Coastal shipping is the most fuel-efficient mode of freight transport, covering almost four times the distance covered by trucks per cargo ton for the equivalent amount of fuel.³⁹ This in turn makes it a relatively affordable mode, in terms of its true cost. It can also carry very large quantities of freight. Recognition of these features will promote an approach which minimises the extent of transport growth necessary to achieve economic development goals, sustainability and minimisation of transport-related energy consumption.⁴⁰

Both road and rail are, in many parts of the country, at or close to capacity.

Significantly, both road and rail are, in many parts of the country, at or close to capacity. Continued investment in these modes will be necessary if New Zealand is to realise its economic potential, but the quantum of that investment can be moderated by improved integration of all of the surface transport modes. Coastal shipping has the potential to meaningfully reduce congestion and strain on the road network and parts of the rail system.

Coastal shipping is less polluting than other modes. To the extent that ships consume fossil fuels, significant headway has been made internationally in further reducing the polluting effects of ships. Given the current state of the sector the opportunity for New Zealand to capitalise on the environmental lessons learned elsewhere should not be overlooked.

³⁷ NZTS, 4

³⁸ NZTS.

³⁹ US Department of Transportation Maritime Administration figures, 2002. Short sea shipping also covers three times the distance per cargo ton as that covered by rail for the equivalent amount of fuel.

⁴⁰ Ibid, 10.

Given an increase in vehicle-kilometres of 34% for light goods vehicles and 19% for heavy goods over the 1996-2001 period, both the need for - and potential of - coastal shipping as a means of easing pressure on highways is self-evident.

To put the relative efficiencies in perspective:

1 barge = 58 trucks

1 barge-tow = 870 trucks

1 small coastal ship = 300 trucks.

Modal Integration

Under the priority of “Influencing Demand for Transport Services”, the TSSD notes that a key goal is to manage transport activity “by providing people and goods with efficient options to choose from within and across modes”.⁴¹ This involves addressing the problems of “inefficiencies between transport modes” and “modes not being used to their best advantage”.⁴²

Integration is key to ensuring the system is both as economically efficient and environmentally sustainable as possible and it is clear that there is much to be done in this area.

Given trends in international shipping and their implications for the emergence of primary and secondary ports in New Zealand, coastal shipping can provide an efficient feeder to both road and rail modes, through its existing Cook Strait capacity and through links with road and rail at other ports.

However, this will require a shift in thinking away from competition between transport modes and particular regional interests in favour of a focus on upon complementary solutions and the wider national interest.

Safety

As a safe and safety-conscious mode of transport, shipping buttresses public and environmental safety. Having the potential to move large volumes of heavy land transport from state highways shipping contributes to highway safety and government's goal of reducing the number of road deaths. Its low cumulative environmental impact relative to other transport modes is also significant in terms of militating wider public health impacts.

⁴¹ TSSD, 13.

⁴² Ibid

Responsiveness

Coastal shipping can provide an efficient means of transport to isolated areas of New Zealand to and from which it is difficult to move freight by road or rail. Examples of this include the agreement to ship coal from the South Island to Port Taranaki and the shipping of cement from the Holcim manufacturing plant out of Westport. A number of other opportunities for this type of efficiency are yet to be realised, such as the movement of logs and forestry products out of Gisborne and Northland.

The industry provides a potentially cost-effective additional option for people and businesses transporting freight, responding to their need for an efficient mode of transport. This will become increasingly valuable as the costs of road freight continue to escalate as a result of higher fuel prices, greater congestion, allocation of environment costs and strain on the road network.

Summary

As in other jurisdictions, coastal shipping and its related infrastructure have significant potential as a means of reducing heavy goods traffic on the roads and enhancing regional and national economies. The development of coastal shipping is entirely consistent with government's objectives for transport and New Zealand's economic development.

5 Policy options - how to get there

Introduction

The challenges we have identified will take time to address. They will also require close cooperation between central and regional government, and the maritime and ports industries. They are, however, surmountable.

That said, a stronger emphasis on maritime transport and coastal shipping is required, along with a policy and regulatory environment favourable to market investment in the coastal shipping option.

A central component of any action must be the creation and adoption of a national maritime strategy dealing with coastal shipping and its related infrastructure. This should complement and have equivalent importance to government's strategies for cycling and walking, road and rail.

Fortunately, there are ample policy precedents available overseas upon which the government can draw for such a strategy.

International practice

Europe

In Europe, coastal shipping and short sea international shipping are seen as essential elements in the maintenance of a dynamic and efficient transport system.

The European Commission White Paper on European Transport Policy for 2010 ⁴³ underscores the role of Short Sea Shipping (“**SSS**”) as a means of curbing forecast increases in heavy goods vehicle traffic, rebalancing modal shares, bypassing land bottlenecks and enhancing safety and sustainability. ⁴⁴

The Commission's objective is to return the market shares of the transport modes to their 1998 levels. Measures to give effect include the adoption in July 2003 of the ‘Marco Polo’ programme, the establishment of SSS promotion centres and the integration of sea, rail and road transport initiatives across member European states.

Marco Polo

The Marco Polo programme is intended to reduce road congestion and improve the environmental performance of the freight transport system within the European Community. Its emphasis is upon intermodality and its role in creating an efficient and sustainable transport system.

⁴³ European Commission, (2001) *European transport policy for 2010: time to decide*. White Paper,

⁴⁴ General Information on the short sea shipping initiative is attached for reference purposes as Appendix C.

Accordingly, the programme supports actions in the freight transport, logistics and other relevant markets to maintain the distribution of freight between the various modes of transport by helping to shift the expected aggregate increase in international road freight traffic to coastal shipping, rail and inland waterways or to a combination of modes of transport in which road journeys are as short as possible.

Short sea promotion centres

In a related initiative, 17 SSS promotion centres have been established. The Centres are neutral bodies that predominantly represent the interests of business in promoting the use of maritime transport. The centres act in the interests of all cargo-movers – whether owners, shippers or operators. All involved share the mission of demonstrating that sea transport is reliable, safe, cost-effective and technically advanced.

Integration versus competition

Underpinning the approach of the Commission is the notion of 'complementarity' instead of competition between transport modes and ports, in favour of an integrated practice and coordinated investment decision making. The cooperation of the markets and individual state interests have been essential, but have resulted in a win-win.⁴⁵

Success Indicators

Early indications are that the short sea shipping strategy has been highly successful, growing faster than road in the latter half of the 1990's⁴⁶ and matching the growth in road transport thereafter.⁴⁷ Further, SSS has experienced an upturn in all member states in the 2002-2003 evaluation period⁴⁸

Of relevance in the New Zealand context are the European Commission's additional findings that SSS is:

- environmentally safe in terms of producing less carbon dioxide compared to other modes of transport;

⁴⁵ European Commission on Maritime Affairs, *Green Paper on a Future EU Maritime Policy*, June 2006, [<http://ec.europa.eu/maritimeaffairs/>].

⁴⁶ European Commission Directorate-General for Energy and Transport, *Statistics on Short Sea Development* (May 2002).

⁴⁷ In the 2003 European Commission evaluation of the SSS the maritime sector was shown to be performing 41% of all tonne-kilometres in Europe while the share of road transport is 43%². The maritime sector's growth rate is above that of European Union industrial production and its tonne-kilometre performance grew by up to 38% in the 1990's as compared to 40% growth in road transport. "Further, SSS has experienced an upturn in **almost all [all except the UK]** member states in the 2002 - 03 evaluation period, with 1.6 billion tonnes of goods transported, accounting for 63% of the entire volume of goods transported by sea in the EU in 2003."

See Commission of the European Communities Brussels, 07.04.2003 com(2003) 155 Final.

⁴⁸ "Eurostat, Georges Xenellis, *Short Sea Shipping 2002 - 2003*, http://epp.eurostat.cec.eu.int/cache/ITY_OFFPUB/KS-NZ-05-002/EN/KS-NZ-05-002-EN.PDF

- perceptually lacking in terms of its image to provide door-to-door service;
- an administratively complex transport mode requiring varying administrative procedures across different European Union member states; and
- harmed by port inefficiencies and port service providers' relative inflexibility.⁴⁹

The key dependencies identified by the Commission, therefore, include:

- adapted design of port infrastructures devoting greater area for SSS;
- modal promotion to address the perceived image/marketing deficiency of SSS;
- funding for training services; and
- service and infrastructure funding.

United States

The U.S. Department of Transportation Maritime Administration ("**MARAD**") is exploring the development of a robust SSS system to help reduce growing freight congestion on the US's rail and highway systems.⁵⁰

At the request of the maritime industry, MARAD has formed a private-public short sea shipping cooperative program. SSS has been endorsed by the Department of Transportation as a high-priority option for the enhancement of freight mobility, the reduction of traffic congestion and alleviation of air pollution.

MARAD is currently assessing initiatives for addressing the relatively low visibility of SSS as a transport option and the reluctance of freighters to use alternatives to roads.

Australia

The Australian experience is less helpful, although it is notable that Australia has retained preference for domestic shipping.⁵¹ This was eroded by the Government issuing increasing numbers of single voyage permits and continuing voyage permits to foreign operators, which circumvent domestic preference. However, Australia has recently enforced its preference regime for domestic shipping under a tighter security environment than the 1990s.

⁴⁹ Commission of the European Community (1992): "White Paper on Common Transport Policy." Commission of the European Community (1995): "Commission Communication." Commission of the European Community (1997): "Green Paper on Sea Ports and Maritime Infrastructure." Commission of the European Community (1999): "Communication on Short Sea Shipping." Commission of the European Community (September 2001): "White Paper on European transport policy for 2010: time to decide."

⁵⁰ The Short Sea Shipping Initiative, US Department of Transportation, Maritime Administration

⁵¹ Navigation Act 1912 (Aus), Part VI.

Useful lessons

International practice, particularly that in Europe, provides us with a useful template for application in New Zealand. A number of initiatives have potential relevance in the New Zealand context, in particular:

- the development of a coherent maritime strategy;
- the promotion of short sea shipping;
- coordination over competition; and
- improvements to ports infrastructure.

Other policy options that should be considered improve the integration of the surface transport modes locally include:

- enhanced representation for the maritime sector and coastal shipping at the policy level;
- increased LTNZ funding for rail and sea freight options;
- better integration of national and regional surface transport policies;
- development of a national ports policy; and
- maritime training.

These initiatives would go a long way in addressing a glaring gap in New Zealand transport policy. They are discussed in detail below.

Enhanced representation for maritime in policy development

Given the present lack of visibility of coastal shipping in current policy thinking representation for coastal shipping at the policy level could be significantly enhanced.

The existing machinery of government might be considered sufficient. Policy matters could continue to be addressed by the Ministry of Transport, whilst MNZ and LTNZ could have enhanced responsibility for the operational aspects of a maritime strategy. This reliance on existing structures would, however, be subject to:

- Close ministerial oversight;
- the allocation of appropriate resource and policy capacity;
- the allocation of clear accountability for the meaningful integration of coastal shipping into central and regional government land transport strategies;
- improved coordination between central government agencies and regional government; and

- the availability of improved analysis and research to enable transport agencies and regional councils to factor in the advantages of coastal shipping to their decisions.

Whatever the administrative arrangements for developing and implementing a coherent maritime policy, it is critical that the responsible agencies have both the commitment and capacity to address the full range of policy and operational functions involved.

Increase in LTNZ rail and sea freight funding

Given the competitive disadvantage that coastal shipping experiences relative to other modes in terms of government funding, increased government support is warranted.

One means of providing this support is by utilising the existing rail and sea freight services funding allocation.

Two steps should be considered in respect of the fund:

- increase the size of the fund to meaningful levels from 2007/08; and
- broaden the activity class "rail and sea freight" to encompass funding for coastal shipping and ports infrastructure development.

In addition to placing this allocation on a par with the "transport demand management, and walking and cycling" funding allocation, the enhanced fund could be used to support:

- the establishment and operation of national and regional maritime freight promotion;
- improvements to ports infrastructure as it relates to coastal shipping; and
- particular coastal shipping initiatives.

These would be straight-forward steps that are consistent with the original purpose of the fund, and could be undertaken within the existing policy administrative and regulatory framework.

Maritime promotion

Among the difficulties for maritime transportation and SSS noted here and in other jurisdictions is its relative lack of visibility as a heavy transport option.

In part, this is attributable to the fact that the true costs of road and rail transport are not borne by the users, with the result that efficient transport options are not incentivised. The increasing costs of heavy road and rail haulage might result in a correction, but this does not address the lack of visibility of coastal shipping within the market.

It is a vicious circle, where the perceived inability to provide reliable service undermines the development of a market demand sufficient to support more flexible and effective service options, and thus encourage greater recourse to the maritime transport option.

To address this a maritime promotions unit could be established within government to work with central and regional government, as well as cargo owners, to examine and advocate for coastal transportation. This would parallel the work being done by the European short sea shipping centres.

Such a unit could be established in the Ministry of Transport, MNZ or LTNZ. Given LTNZ's existing relationship with regional councils and their regional land transport strategies,⁵² it may be the best placed to undertake this work. The maritime focus assumed by MNZ might also suggest it as a suitable administrative location, although subject to a related expansion of its mandate.

Integration of national and regional strategies

Competition between ports and siloed development of regional land transport strategies by regional councils have been identified as holding back the potential of the coastal shipping sector. Investment decisions have been sub-optimal as a result.

To take advantage of the opportunities for regional development, the government must take a proactive role, particularly through facilitation to identify key transport issues and options and, in partnership with local government and business, strategic investments in road transport alternatives.⁵³

Central government, through the maritime promotions unit, could encourage dialogue between regional authorities with a view to agreeing where the investment in international versus coastal shipping should be made. This would encourage a focus on the need for - and the nature of - feeder services. The objective would be to treat ports as an integral part of a national network like road and rail, as discussed further below.

Ports policy

As well as advocating support for the coastal shipping sector itself, we have in this document acknowledged the importance of coordination of and support for ports in realising coastal shipping's potential to contribute to a sustainable, integrated, safe and responsive transport system.

Support for ports infrastructure is a critical component of any comprehensive maritime strategy and could include, for example, capital grants for infrastructure projects.

⁵² Land Transport Act 1998, s178(2)(e).

⁵³ NZTS, 11.

However, as we have also noted, investment in ports infrastructure would be fruitless for coastal shipping and freight transport in New Zealand without an overarching government policy and strategy underpinning the investment. Therefore, as a first step it will be necessary to develop a ports policy that focuses on the utilisation of ports and coastal shipping as a national resource. This would aim to enhance efficiency and require regional cooperation rather than regional competition.

The examination of ports investments may lead to the development of primary and secondary ports, with secondary ports acting as "feeder ports" to primary ports, if this is the most efficient outcome to achieve the objectives of the NZTS. How cooperation between ports and between regions should be achieved is a matter which requires a significant amount of further work, including reviewing the current efficiency of, and relationships between, ports companies.

Maritime training

The Merchant Service Guild report on training in the maritime industry set out a number of suggested solutions to the problems it identified, including a general recommendation that there be support for the coastal shipping industry in order to create an environment for employers to be confident about investing in capital and training.

More specifically, the report recommends introducing training grants to employers and extending eligibility for student allowance to cadets/trainees while they are gaining sea service. It also recommends reviewing the sea service requirements for trainees in light of the Australian model.

Other options

Additional specific policy options have previously been advocated by NZSF and others, particularly the reinstatement of domestic preference and the introduction of a container tax. While this paper advocates exploring avenues for supporting coastal shipping in the context of a wider government strategy for the sector, these options have not proved to be effective avenues and at this time are not considered a necessary part of coastal shipping policy.

However, there may be other options for supporting the development of a viable and sustainable coastal shipping industry. Measures used overseas include depreciation, technology and equipment grants, tax concessions and write-offs. These are options that could be addressed as part of the recommended working group review of this draft strategy.

Summary of policy options

The following options warrant further exploration to address the challenges faced by coastal shipping:

1. Enhanced or new representation at policy and operational levels in government;
2. Increased funding for rail and sea-freight transport options;
3. Expansion of eligibility criteria of, and investment in, the rail and sea freight funding allocation to include coastal shipping and related infrastructure, along with consideration of other options for increasing government support for the sector;
4. Creation of a maritime promotions unit within a central transport agency to promote coastal shipping to:
 - cargo owners; and
 - regional councils;
5. Development of a national ports policy which includes a review of additional support made available to coastal shipping in other jurisdictions.
6. Introduction of a maritime training programme, taking account of the Merchant Service Guild report's recommendations.

6 Recommended programme of action

A Maritime Strategy Consultation Document

In this document we have endeavoured to outline the state of maritime policy in New Zealand and its comparative neglect as a part of an integrated surface transport strategy for New Zealand.

In addition to describing the growing opportunity costs associated with the continued relegation of the sector in government's policy thinking, we have drawn on international precedents to provide a possible template for action that will form the basis of a New Zealand maritime strategy.

Accordingly we recommend that government:

- consider this document and the initiatives noted in it as the basis of such a strategy; and
- instruct officials to use this document to develop a maritime strategy consultation document for consideration by a working group of industry stakeholders.

Working group

The working group should be to consider the draft strategy and make recommendations to government in respect of the coverage and support required from government to put the strategy into effect. We suggest that among the brief of the working group should be the identification of gaps and barriers to achieving integrated planning.

Further we recommend the group should be comprised of representatives from:

- transport agencies;
- cargo owners;
- the international and coastal shipping industries;
- ports companies;
- regional government;
- the maritime unions; and
- the Council of Trade Unions.

The working group should be required to complete its deliberation in time to allow for the finalisation of a New Zealand Maritime Strategy by the end of the 2006/07 fiscal year.

Immediate steps

Along with development of a Maritime Strategy and establishment of a working group, there are several measures that could be taken immediately. These do not require significant adjustments to current policy or fiscal settings as they are already mandated by current legislation and policy. However, they would deliver meaningful change to the coastal shipping sector. They would also assist in the finalisation of the New Zealand Maritime Strategy.

Surface Costs and Charges Study

First, Phase 2 of the Surface Costs and Charges Study should include the costs and charges faced by the New Zealand coastal shipping industry. This is mandated by the TSSD and has the potential to make a significant impact on the way coastal shipping is viewed by policy makers.

Funding criteria for rail and sea freight services

Secondly, as a matter of urgency, the funding criteria for the rail and sea freight services allocation should be expanded to explicitly include coastal shipping, thus reflecting the original intention of the fund. Expanding the funding available under this allocation should also be considered.

Thirdly, a review should be commenced of ports, including their treatment of coastal shipping, their current efficiency, their relationships with each other, their ability to further the development of coastal shipping and options for government support to that end. The outcomes of this review will have important implications for coastal shipping policy.

7 Conclusion

The current state of maritime policy in New Zealand underscores the lack of real consideration given to how the maritime sector and coastal shipping can contribute to the evolution of a truly integrated surface transport strategy for New Zealand.

In part, this is attributable to the absence of a coherent maritime strategy that has equivalence to government's strategies for cycling, road and rail. This gap makes it difficult for central and local government to consider the full range of mechanisms available to influence transport demand or to develop funding packages or incentives likely to lead to the development of more efficient, effective and environmentally sound transport systems. As such, it is an impediment to effective transport planning,

Shipping presents a number of significant opportunities for helping attain the Government's transport vision and its vision for the economy as a whole. That potential has been neglected.

The proposals presented in this draft strategy are not radical. Nor do they involve the type of market distortions that might be occasioned by such measures as the restoration of the reservation of coastal cargo for New Zealand flagged ships. They are instead intended as the basis for a package of initiatives aimed at restoring a measure of competitive neutrality to the transport modes and capitalising on the benefits of maritime transport as the most fuel-efficient, environmentally friendly and high capacity form of heavy freight transport.

APPENDIX A

NEW ZEALAND SHIPPING FEDERATION

The New Zealand Shipping Federation is an industry organisation representing New Zealand ship owners and operators, nationally and internationally, which was founded in 1907.

Goals

To continue to develop and maintain a competitive, safe and environmentally responsible New Zealand shipping industry.

To promote the participation of New Zealand shipping in coastal, Australasian, Pacific Rim and other international trades where appropriate.

To foster safe, competitive, quality and customer oriented New Zealand shipping services.

To represent New Zealand shipping to Government, Parliament, cargo interest groups, sector groups, the general public and appropriate international organisations.

To promote and maintain industry standards for safety, training and environmental protection.

To provide a clearing house for information relevant to the New Zealand shipping industry.

To encourage the development of viable employment opportunities for New Zealanders in shipping.

Current membership

Pacifica Shipping (1985) Limited.

Silver Fern Shipping Limited.

Holcim NZ Limited.

Toll - The Interislander.

Strait Shipping Limited.

Golden Bay Cement - a division of Fletcher Concrete and Infrastructure Limited.

Associate member: NIWA - National Institute of Water and Atmospheric Research.

APPENDIX B

LOCAL GOVERNMENT OWNERSHIP OF PORTS COMPANIES

Port Ownership	Local Government Ownership
Northport	Northland Port Corporation 50% Port of Tauranga 50% (Northland Port Corporation: Northland RC 55%, Ports of Auckland 20%, all shares NZX listed)
Ports of Auckland	Auckland RC 100%
CentrePort (Port of Wellington)	Horizons NW (Manawatu/Wanganui RC) 23% Greater Wellington RC 77%
Port of Tauranga	Environment Bay of Plenty (Bay of Plenty RC) 55% All shares NZX listed
Eastland Port (Port of Gisborne)	Eastland Community Trust (of which Gisborne DC is the capital beneficiary) 100%
Port of Napier	Hawkes Bay DC 92% Horizons NW 8%
Westgate (Port of Taranaki)	Taranaki RC 100%
Port Nelson	Nelson CC 50% Tasman DC 50%
Port Marlborough	Marlborough DC 100%
Lyttleton Port (Christchurch)	Christchurch CC 69% All shares NZX listed
Port Otago (Port Chalmers and Dunedin)	Otago RC 100%
PrimePort Timaru	Timaru DC 71%
Southport (Port of Invercargill)	Southland RC 65% All shares NZX listed

APPENDIX C

SHORT SEA SHIPPING: A TRANSPORT SUCCESS STORY

Published by: European Commission, Energy and Transport DG B-1049 Brussels
http://europa.eu.int/comm/dgs/energy_transport/index_en.html © European Communities, 2002

Stimulating the growth of short sea shipping has been a priority of EU transport policy since 1995. It remains central to the comprehensive strategy for a clean, safe and efficient European transport system set out in the Commission's 2001 White Paper, *European transport policy for 2010: time to decide*. Short Sea transport grew by 29.6% between 1990 and 1999. A total of 40% of all trade within the European Union is now carried by sea, surpassed only by road transport. But its potential is much greater. Still needed are improved links to inland networks and the establishment of 'sea motorways' between key ports. Promoted in this way, short sea shipping could take substantial volumes of goods traffic off Europe's congested roads and ease major road and rail bottlenecks.

short sea shipping

- an efficient and environmentally-friendly transport mode
- often, the most cost-effective means to shift long-distance traffic off Europe's roads
- an essential link to islands and outlying regions.

the challenges

- to promote short sea shipping's reliability and frequency
- to ensure that its reliability, quality and safety are recognized
- to remove unnecessary costs and delays at ports

the goals

- to integrate shipping more fully in door-to-door freight transport services
- in conjunction with rail and inland waterways, to absorb predicted increases in EU goods transport

community action

- active promotion of short sea shipping
- administrative simplification of shipping logistics
- targeted investment in infrastructure and support for R & D where possible.

STEEL BY SEA

Based in the Ghent canal zone, Sidmar NV is one of the world's largest steel producers. It provides materials for the automotive, white goods, furniture, shelving, radiator and construction industries, where high quality is required. Exporting a very large proportion of its output, Sidmar makes extensive use of short sea shipping, and in 2000 shipped 465 000 tonnes of steel to other countries in Europe and beyond. Sidmar uses regular services provided from Antwerp by the operating company Transaf Antwerpen, as well as chartering ships directly. Short sea shipping carries all its exports to Finland, Israel and Tunisia, and more than 90% of the steel destined for the British, Danish, Norwegian, Turkish and Portuguese markets. Sidmar is convinced of the advantages of sea transport.

On the basis of both environmental and cost considerations, use of short sea shipping in preference to road transport has become a clear company policy, and Sidmar is continuing to explore the possibility of using it on additional routes.

SHIPPING GIVES COMPETITIVE ADVANTAGE

A two-year EU-sponsored project has shifted 18.25 million tonne-kilometres per year of heavy goods traffic off roads between northern Italy and Greece. It clearly demonstrates the commercial benefits to road haulers of co-operation with partners in the shipping industry.

The project has involved the adaptation of terminals at each port, the introduction of new and upgraded trailers for rapid loading and unloading, and the improvement of a 'tracking and tracing' system for the exchange of consignment data with customers via electronic data interchange (EDI) or the Internet.

Together with Caberos Enterprises of Patras in Greece and the Minoan and Strintzis shipping lines, the Italian logistics firm Danzas SpA is offering a new maritime link between Venice and Patras. The daily voyages in each direction offer cost reductions to customers in the chemicals, food-processing, machine-tool and consumer-goods sectors. This positive market response is likely to encourage similar operations, removing more trucks from long-distance routes.

The European Commission's Directorate-General for Energy and Transport develops and carries out EU policy in these closely linked areas. The 2001 White Paper, *European transport policy for 2010: time to decide*, sets out 60 practical measures designed to bring about significant improvements in the quality and efficiency of transport in Europe by 2010, and to break the link between economic growth and growth in the demands on transport systems. Short sea shipping is a vital component of this overall strategy.

PROMOTING AND STREAMLINING THE SERVICE

The Commission is engaged in an on-going exercise to identify critical bottlenecks preventing more widespread use of short sea shipping, as well as possible solutions. For example, the documentary and administrative procedures for short sea shipping differ widely between Member States and between individual ports. As a first step towards remedying this, standard use will soon be made across the EU of the IMO-FAL forms required when ships enter or leave ports. Furthermore, the Commission is proposing possible simplifications on customs rules for short sea shipping.

When adopted, the **'Marco Polo'** programme proposed in the transport White Paper will provide a budget of \$115 million over the five years 2003-2007 for actions aimed at shifting 12 billion tonne-kilometres per year of road freight from Europe's roads to its rail and inland waterway networks – and, in particular, to its short sea shipping routes.

EFFICIENT, CLEAN - AND GROWING FAST

The Commission defines short sea shipping as the movement of passengers and cargo by sea within Europe, both inside and outside the EU, as well as to and from all ports in the Mediterranean, the Baltic and the Black Sea. Its 1999 communication **The development of short sea shipping in Europe: a dynamic alternative in a sustainable transport chain** (COM(1999) 317 final) reports good progress towards the long-term goal of establishing sea transport as a viable alternative to road haulage. Short sea shipping produces fewer polluting emissions than any other mode of transport and, for passengers, has a death rate only a fraction of those of other modes.

But the communication goes further, describing a strategic vision of maritime transport as a fully integrated component of door-to-door intermodal transport services, and a major contributor to sustainability, cohesion, and competitiveness. Specifically, short sea shipping has the potential to accommodate much of the anticipated growth in freight without increasing pressure on Europe's already crowded roads.

Key link in intermodal transport chains

Intermodality – the easy transfer of goods and passengers between road, rail, sea and air transport – is the key to the development of short sea shipping. Sea transport is already highly competitive for long distances.

But short sea shipping needs to become more attractive as an alternative for shorter journeys. If it is to fulfill its potential, partnerships with operators of other transport modes are vital, as the basis for intermodal transport service packages oriented to customers' changing needs.

SHORT SEA SHIPPING PROMOTION CENTRES

The Commission has actively supported the creation of Short sea Shipping Promotion Centres (SPCs) in each of the 13 maritime Member States, providing one-off financial support for the establishment of 12 centres to date. Independent of individual regions or ports, the SPCs act in the interests of all cargo-movers – whether owners, shippers or operators. Funded by both public and private sectors, all share the mission of demonstrating that sea transport is reliable, safe, cost-effective and technically advanced. The Commission has also financed and supported the launch of the European Short Sea Network (ESN), which links the national SPCs to facilitate collaborations and the exchange of experience.

Growth of intra-EU transport, 1970-1999, by mode

Since 1970, short sea shipping's share of total intra-EU goods transport has increased from 35.3 to 40.4%. Tonne-kilometres of cargo carried have grown by 153% (see chart), outstripping overall freight growth (121%). But road haulage has grown faster, by 220% in the same period, and now accounts for 44.5% of the total.

As the successful recent expansion of Italian coastal shipping routes demonstrates, short sea shipping can provide a real off-shore alternative to congested road networks. The development of regular connections along the Italian coasts and with non-Italian ports has been steady and has progressed to take in more and more destinations over recent years. The progressive shift of cargo onto these 'motorways of the sea' has produced cost savings for users, profits for operators, and cleaner, less congested roads for Italian citizens throughout the country.