

MINISTERIAL BRIEFING NOTE

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| Subject | Coastal Shipping Activity Class Overview |
| Date | 15 May 2024 |
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| Contact(s) for telephone discussion (if required) | | | | |
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Action taken by Office of the Minister

- ☐ Noted
- ☐ Seen by Minister
- ☐ Agreed
- ☐ Feedback provided
- ☐ Forwarded to
- ☐ Needs change [please specify]
- ☐ Withdrawn
- ☐ Overtaken by events

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15 May 2024

Hon Simeon Brown – Minister of Transport

COASTAL SHIPPING ACTIVITY CLASS OVERVIEW

Purpose

1. This briefing provides you with an update on the Coastal Shipping activity class.

Background

2. New Zealand's coastal shipping sector fulfils a critical role in New Zealand's freight system. It provides a safe and sustainable mode for transporting large, heavy cargo that are non-time sensitive such as petroleum products, cement, and aggregate.
3. Coastal Shipping was introduced as a new activity class in the GPS 2021/22 – 2030/31, with an activity class range of \$30-45 million over 2021/22 – 2023/24.
4. The objectives of the Coastal Shipping activity class were to:
 - embed mode neutrality and choice for freight transporters;
 - allow New Zealand flagged coastal shipping to operate on a level playing field with other freight operators; and
 - enhance the sustainability and competitiveness of the domestic sector.
5. Investment in coastal shipping reduces freight sector greenhouse gasses and road congestion while enhancing the safety and resilience of the transport network. This is achieved both by removing a portion of heavy vehicles from the road and establishing capacity for non-land transport alternatives in case of emergency events.
6. To support most effectively investing in the activity class, NZTA commissioned independent consultants Pacific Marine Management to research the challenges and opportunities facing the coastal shipping sector in New Zealand.
7. An open market Request for Proposal process was used to evaluate and select the final investments for the activity class. The applicants were evaluated on alignment with activity class purpose, level and certainty of co-investment, ability to deliver in desired timeframe, commitment to the implementation of the project, reduction in carbon emissions, and contribution to making a more resilient freight sector.
8. The freight industry supported increased coastal shipping capacity due to the benefits to New Zealand and the broader freight sector. NZTA worked with an expert advisory group from the freight industry (KiwiRail, National Road Carriers, NZ Shipping Federation, the Port Company CEO Group, and the Ministry of Transport) to provide advice into the selection of the successful applicants.
9. Following investment from the GPS 2021, the draft GPS 2024 has removed the Coastal Shipping activity class.

What has been funded from the Coastal Shipping activity class of the NLTP

10. The previous NLTP committed \$30 million of funding for coastal shipping.
11. From 13 applicants, NZTA co-invested this funding with four successful suppliers. Collectively the suppliers would be investing over \$60 million to deliver the projects, resulting in a combined investment in the coastal shipping sector of \$90 million.
12. The four successful suppliers were Coastal Bulk Shipping Ltd, MOVE International Ltd, Swire Shipping NZ Ltd, and Westland Mineral Sands Ltd. Once operational, each of the four suppliers were expected to bring one additional coastal shipping vessel into service, improving the overall capacity of the coastal shipping sector and broader supply chain resilience.
13. As of March 2024, \$24.6 million from the NLTF had been invested in the Coastal Shipping activity class. Three of the four contracted suppliers have procured vessels with all due to be in service by June 2024:

| Supplier | Investment outcome |
|----------------------------|--|
| Coastal Bulk Shipping Ltd | Deployed company's second bulk material vessel October/November 2022. The second vessel was larger than the MV Anatoki at 2000 deadweight tonnes, and supported customer requirements to lower supply chain costs. |
| Swire Shipping NZ Ltd | Deployed company's second container vessel improving frequency between the key ports of Auckland and Lyttelton as well as expanding coverage into additional regional ports, October/November 2022. |
| Westland Mineral Sands Ltd | New barge services in regional New Zealand. Vessel procured, modifications complete and currently in transit to New Zealand. Expected into service prior to June 2024. Upgrading ports and training crews. |

14. The final supplier, MOVE International Ltd (MOVE), have notified NZTA that they are no longer able to deliver their proposal as agreed under the funding agreement. Our funding agreement with MOVE totalled \$10 million. s 9(2)(j)

16. The other three successful applicants will have fulfilled their contracts by June 2024. The additional services provided by Coastal Bulk Shipping and Swire Shipping are now well established.

Outcomes achieved from this investment

17. The activity class de-risked private sector investment and leveraged private funding to introduce new vessels and services to New Zealand. It is unlikely these investments would have been made by the private sector at this time without co-investment from the activity class.
18. It was estimated that the combined services, once fully operational, would remove approximately 35 million kilometres of truck travel from the roading network every year.
19. Three of the four contracted suppliers have added vessels to the NZ coastal shipping market. Each provides a different service offering that doesn't directly compete with other Coastal Shipping activity class investments:
- Coastal Bulk Shipping Ltd, focus is on adding bulk material capacity.
 - Swire Shipping NZ Ltd, focus is on increasing container movements.
 - Westland Mineral Sands, multipurpose barge will focus initially on aggregates when deployed.
20. An additional benefit was that Coastal Bulk Shipping deployed their new vessel to support the emergency response work following Cyclone Gabrielle, providing a coastal shipping service between Gisborne and Napier, replacing a land transport route that had closed due to damage.

Issues that have arisen from the Coastal Shipping activity class

21. Issues that have arisen from the Coastal Shipping activity class have largely been in line with those seen in the broader freight industry:
- The freight market has experienced a drop in volume across all modes in line with the wider economic environment. Changes in supply chain management and reduced domestic demand for goods has resulted in overall imported volumes reducing by 5% in the quarter ending January 2024 for 12-month rolling tonnage through New Zealand ports (source Transport Trends 2024 – Forsyth Barr). This has put increased commercial pressure on all freight market participants including the coastal shipping freight class.
 - Availability of coastal shipping slots in various port schedules have also constrained potential growth from the activity class investment. To account for this, the coastal shipping industry has requested improvements to port infrastructure to improve port productivity. For example, the industry would ideally like to implement dedicated coastal shipping wharfs to enable a resilient and reliable freight exchange.
22. The addition of the Coastal Shipping activity class has led to strong competition for maritime staff due to the introduction of the new vessels and revealed the relative scarcity of available workers. As a result, maritime worker rates have increased. This mirrors what has been seen in the other modes of the freight industry with an aging experienced workforce and the need to either increase domestic recruitment and training, or to import skilled labour in the future.

23. There has been benefit gained from the Coastal Shipping activity class as we have been able to leverage private funding to maximise the return on the government's co-investment and added capacity and resilience to the wider freight sector.
24. Due to market wide constraints, there is limited demand for further investment in coastal shipping at present. If a Coastal Shipping activity class were to be included in a future GPS, NZTA would recommend it is targeted towards shore side infrastructure, as this is where improvements in productivity and efficiency of existing vessels and services can be readily addressed.

It is recommended that you:

1. **Note** the contents of this briefing.



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Brett Gliddon

Group General Manager – Transport Services

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Hon Simeon Brown, Minister of Transport

Date: 2024