

Before the Independent Hearing Panel
Appointed by the Southland Regional Council

Under the Resource Management Act 1991 (**RMA**)

In the matter of an application by **South Port NZ Limited** to dredge parts of
the Bluff Harbour

Statement of evidence of Nigel Gear

29 March 2022

Applicant's solicitor:

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**anderson
lloyd.**

Qualifications and experience

- 1 My name is Nigel Gear.
- 2 I am currently employed as the Chief Executive of South Port NZ Limited (South Port). I have held this position for 4 years.
- 3 I have 28 years' experience in the port sector ranging from finance, commercial and warehousing to operations. I completed a Bachelor of Commerce at the University of Otago and have a Diploma in Port Management (distinction) with accreditation in managing cargo operations in port.

Executive summary

- 4 In this evidence I outline the key parts of the capital dredging project, its importance for South Port and the benefits it will bring to the company and the community.

Company background

South Port NZ

- 5 The port at Bluff first became a trading port in 1824, and from 1877 was government owned and operated under the guise of the Southland Harbour Board.¹ The Port Companies Act 1988 changed all that with port companies acquiring all commercial activities and the non-commercial activities acquired by local territory authorities.² NZ port companies became responsible for selecting the services they would provide, charges they would set, investments they would make and people they would employ. South Port New Zealand Ltd (South Port) was born!³
- 6 South Port is NZ's southernmost commercial port, operating from a 40ha man-made island in Bluff Harbour supplemented by the petroleum and aluminium smelter wharves.
- 7 South Port was listed on the NZ Stock Exchange (NZX) in 1994. Environment Southland is its 66% majority shareholder.
- 8 The organisational structure of South Port is as follows:

¹ (McLauchlan, 2021)

² (Layton, 2010)

³ (Port Companies Act 1988, 1988)

- (a) Board of Directors – 6 including Chairman and deputy; and
 - (b) Leadership Team – 8 including Chief Executive Officer (CEO) and Port General Manager.
- 9 In addition to the CEO, the structure has the Port General Manager as second in charge (2IC) with a flat leadership team including managers of Infrastructure, Finance, Human Resources, Warehousing, Business Development and Containers
- 10 There are currently 103 full time staff employed by South Port.

Our purpose

- 11 South Port's purpose is to facilitate the best logistic solutions for the region.

Our strategic focus

- 12 In all activities the company will ensure a safe workplace is provided, employee wellbeing is enhanced, the physical environment is respected, and cultural impacts are assessed. This aspect of the strategy requires the Company to deliver continuous improvement and active engagement in these areas.
- 13 Other focus points are to:
- (a) Protect existing trade and develop growth opportunities;
 - (b) Strengthen and extend existing New Zealand Port relationships/alliances and position the business for potential future sector rationalisation;
 - (c) Develop and/or influence optimal logistic solutions with port linkages;
 - (d) Optimise shareholder value and reinvest in our business;
 - (e) Evaluate and acquire appropriate technology to enhance, protect and expand our core business; and
 - (f) Provide infrastructure, fit for purpose, whole of life. Available, flexible, and resilient, with acceptable returns.

Need for the port development project

- 14 South Port is a critical strategic asset for the southern region of New Zealand both as a lifeline utility and an international port for the movement of cargo. The importance of having an efficient operating port in close

proximity to a significant volume of import / export cargo translates to long term commercial, social and environmental benefits for the region.

- 15 South Port currently handles in excess of 3.5 million tonnes of cargo per annum across our wharves. The majority of this volume is located within 50 km of the port. Of this volume 85% is low margin bulk commodities which can only be efficiently transported short distances for shipment.
- 16 The vessels currently calling at the port moving these cargoes, both bulk and containers, are part of a supply chain connecting 75 countries and 201 ports worldwide through Bluff.
- 17 The freight task in New Zealand is predicted to increase in coming years so the demands on the port infrastructure and the need to be more efficient is only going to increase.
- 18 While the shipping community is increasing the size of their fleets to meet this challenge, we also need to look at how we can similarly adjust to meet these demands.
- 19 If we choose to remain idle we will be faced with reduced throughput and profitability, poor environmental outcomes, and ultimate decline, which is the scenario faced by any port not willing to invest in the future. To cater for larger vessels, to better service the supply chain, increase our options in the hinterland and be able to take advantage of opportunities to grow with our exporters, the Board made the strategic decision in 2019 to approve a port development master plan now known as Project Kia Whakaū.

Project Kia Whakaū

- 20 South Port has played a key role in helping businesses grow in Southland contributing to the overall wellbeing of the region. A well-resourced and appropriately designed port future proofs and supports regional growth.
- 21 When the Harbour Board had a vision in the 1950's to build the Island Harbour they provided an international port which Southland has been benefitting from for almost 70 years.
- 22 The last dredging campaign of the 1980's allowed the port to keep up with the growth in domestic and global trade by increasing its capacity. However, the picture has changed and now the Port (and the region) is being restricted by vessel draft (which I explain below). By deepening the Port, we will unlock the full potential and position Southland to take advantage of opportunities which may come along whilst maximising the opportunities for the current customer base.

Scale of proposed dredging

- 23 While direct comparisons are difficult I note that compared to other dredging campaigns carried out in New Zealand this proposed project is significantly smaller in volume and has the potential to create great benefits, through both increased safety limits and improved efficiencies, which I expand on below.
- 24 The 160,000m³ of capital dredging proposed by South Port is dwarfed by other dredging programmed in New Zealand. As a comparison, Napier Port are currently dredging 1,300,000m³ but are consented for up to 3,000,000m³. Ports of Auckland have consent to undertake 2,500,000m³ of capital dredging.

Environmental benefits

- 25 In the current environment only a small proportion of the container traffic could utilise rail as suggested by Forest & Bird in its submission. It must be noted 85% of cargo which South Port handles is 'bulk' cargo, such as stock food, fertiliser, logs, woodchip, and ingredients to manufacture aluminium (refer para 48 below). If bulk cargo was not able to come to South Port (the nearest port), then it would need to be trucked further afield. This would be equivalent to moving approximately 3,000,000 MT over a minimum of an additional 200 km or 85,000 truck movements (160,000 including return trips) – for bulk cargo alone. This would increase the volume of heavy traffic on our roads, increasing risk to safety, increased road maintenance and also creating a bigger carbon footprint.
- 26 Currently ships enter or leave South Port with capacity to take more cargo. The current depth of the channel prevents customers from loading the ships to their full capacity. This means the ships have to steam to another port to 'top-up'. This comes at a cost to the customer financially but also has a negative impact on the environment due to ships having to travel longer distances and wait for berth vacancies to load / discharge their cargo.
- 27 With current cargo mix and volumes, if we deepen the port, we are likely to see less ships calling to Bluff given they can import/export more cargo on existing vessels.
- 28 The economic benefit of having a one port call will also allow rail to become more affordable and be a viable alternative to road transport for transporting cargo south for shipment.

Economic benefit

- 29 Deepening the channel by up to 1m will allow customers to fully load ships and therefore have only one port call in New Zealand before turning around and exporting their product to the rest of the world. This reduces the cost to the Southland exporter/importer, making them more competitive in the market which has a wider benefit to the Southland/New Zealand economy.

Supply chain

- 30 A development of this nature would create much needed efficiencies in the supply chain that is currently heavily disrupted largely due to capacity issues. The proposed deepening aligns with our company purpose which is to facilitate the best logistic solutions for the region.

Future proofing

- 31 When the Harbour Board had a vision in the 1950's to build the Island Harbour they provided an international port which Southland has been benefitting from for almost 70 years. With this deepening, we are helping to keep Southland businesses competitive on a global scale for the next 70 years.
- 32 In January 2021 Rio Tinto announced that the New Zealand Aluminium Smelter (NZAS) would close in December 2024.
- 33 This shifted the focus of the region, government and the electricity generators onto how the Southland economy would adapt, pivot and introduce new industry to replace NZAS and make use of the electricity being generated at the Manapouri hydro power station.
- 34 The region is now working with the Just Transition team from MBIE looking at future opportunities for new industry to be established in the south.
- 35 One key focus has been on the potential establishment of green hydrogen, converted either to ammonia or liquid hydrogen, initially for export. While these studies are in early stages it has become very evident that the channel in its current form inhibits new industry from gaining the best possible shipping options to obtain an efficient and cost-effective supply chain to international markets.
- 36 Potential consortiums have advised that due to the high cost of transportation larger ships are more desirable to make any project more commercially viable. They advised that a draft of 10.7m (9.5m CD) would make development in Southland a more realistic opportunity.

- 37 The channel project that has already been approved by the South Port Board therefore will provide the much needed additional capacity to help create efficiencies in the supply chain that new industry are currently looking for.
- 38 With a deeper channel we increase the possibility of green energy being developed in New Zealand.

Health and safety benefits

- 39 Ship sizes have increased significantly over the past 60 years since the Island Harbour was built in 1960, but the entrance channel has remained the same (apart for a 0.5m deepening in 1980's). Refer to Figures 8 and 9 below to see progression of ship sizes.
- 40 The channel is predominantly 107m wide but because of an outcrop of rock along north edge and an outcrop along south edge, the width reduces to approximately 84m in one location (refer to Figure 1 below).

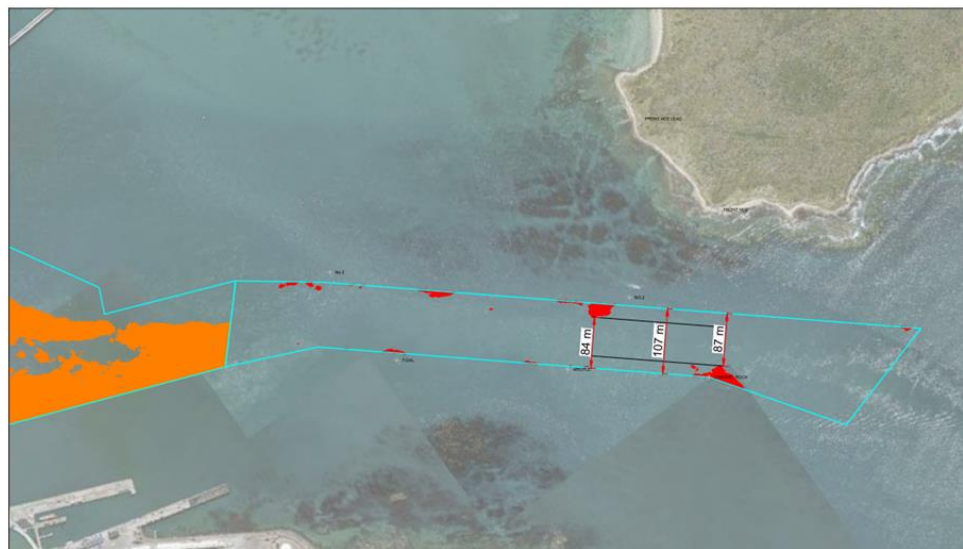


Figure 1: Proposed capital dredging

- 41 When you consider the width of ships are, on average, 32m and lengths of up to 260m there is not a lot of room to navigate the channel. It must be also noted that ships rarely travel through the channel in a straight line due to various factors including wind, tide, and water current, then this width is effectively reduced further.

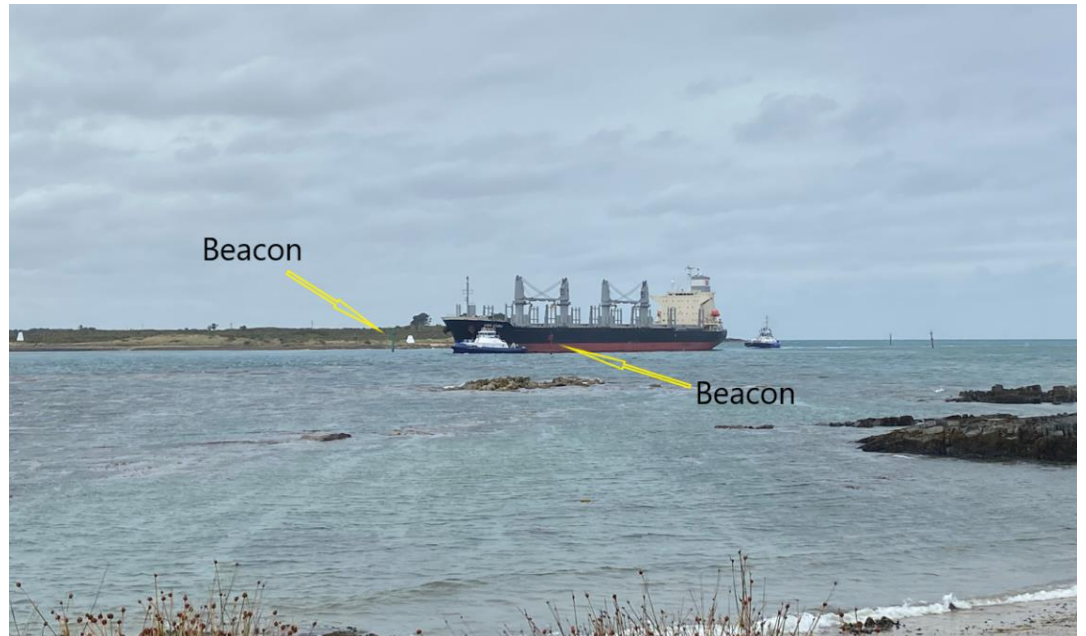


Figure 2: Vessel navigating the entrance channel

Rūnanga relationship

- 42 South Port and Awarua Rūnanga have been working hard to strengthen the parties' relationship over the past few years. Both parties share the same vision – the prosperity of Bluff and the wider Southland region.
- 43 South Port has regularly consulted with the Awarua Rūnanga on various matters and the Rūnanga has also played a significant part in the design of the new South Port logo and naming of the recently purchased Harbour Tug.
- 44 The Port regularly meets with Awarua representatives to update them on port projects and in particular projects which may be of interest to Rūnanga.
- 45 We have discussed Project Kia Whakaū on several occasions and the Rūnanga provided their unconditional support as part of the resource consent application process.

Importance of ports

- 46 International trade is essential for businesses and economies to grow. If international trade grows, economies grow. Trade needs to move around the globe quickly and inexpensively to ensure customer satisfaction and financial results are achieved. The main modes of transport to get your goods into the international market are sea, air, rail, road, waterway, or pipeline. When you consider 90% of world trade travels by sea you quickly

understand the important role ports play in international trade and why they are a key link in the larger supply chain.

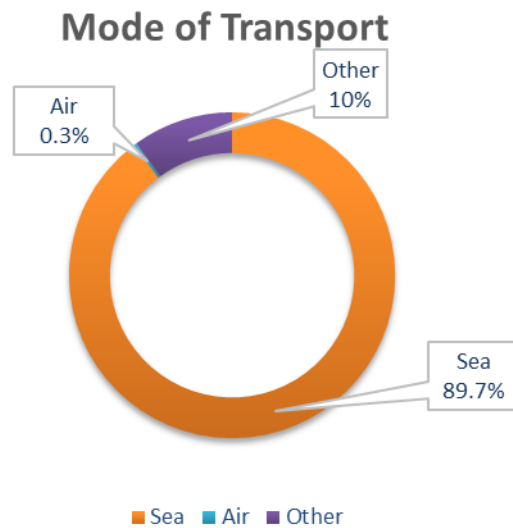


Figure 3: Trade by sea

Source: Trade and Climate Change 2006 (1) (L.Tamiotti, et al., 2009)

47 Prior to Covid-19 the outlook for global trade was looking strong with global trade expected to reach 14.9 billion tonnes in 2021.⁴ Since 1995 seaborne trade has almost tripled and has grown steadily during this time, refer graph below.⁵

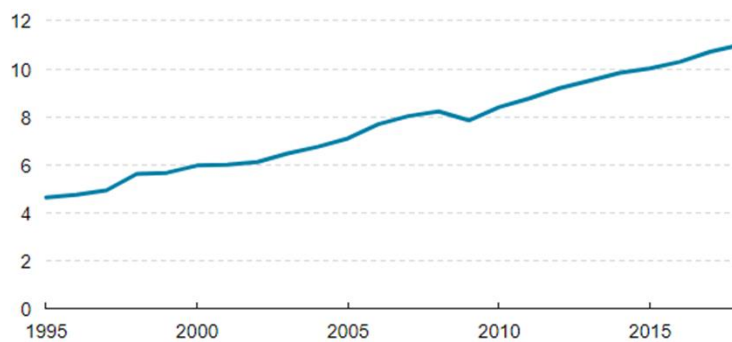


Figure 4: Seaborne trade (billion tonnes)

South Port Trade Analysis

⁴ (Tomasz Brodzicki, 2020)

⁵ (MaritimeTransport/WorldSeaborneTrade, 2019)

- 48 Bulk cargo accounts for 85% of all volumes handled by South Port. South Port hit a record two way volume in 2019 reaching 3.52 million tonnes which doubled the volume post GFC of 1.7 million tonnes.

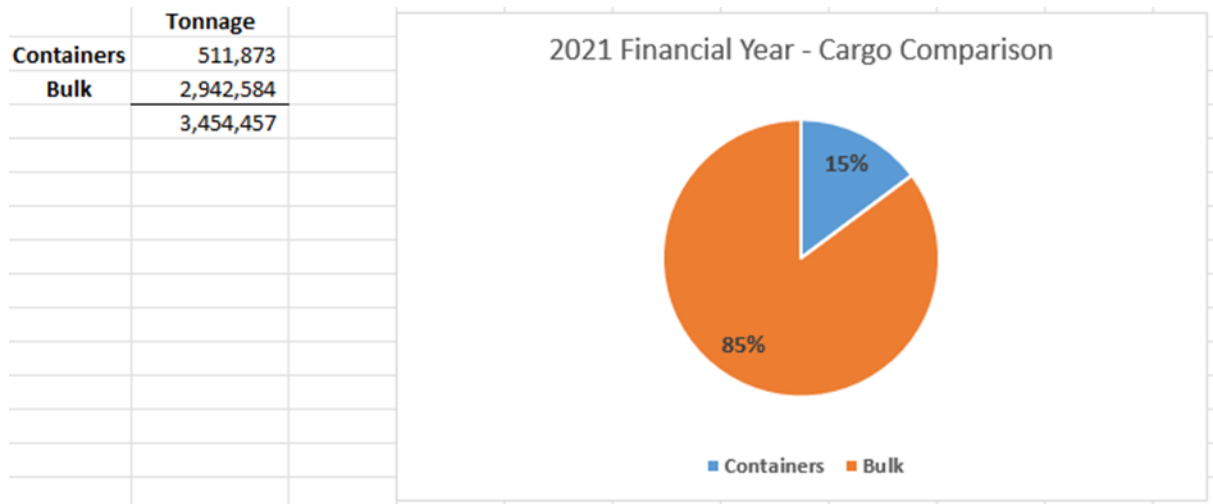


Figure 5: Containers vs Bulk (South Port)

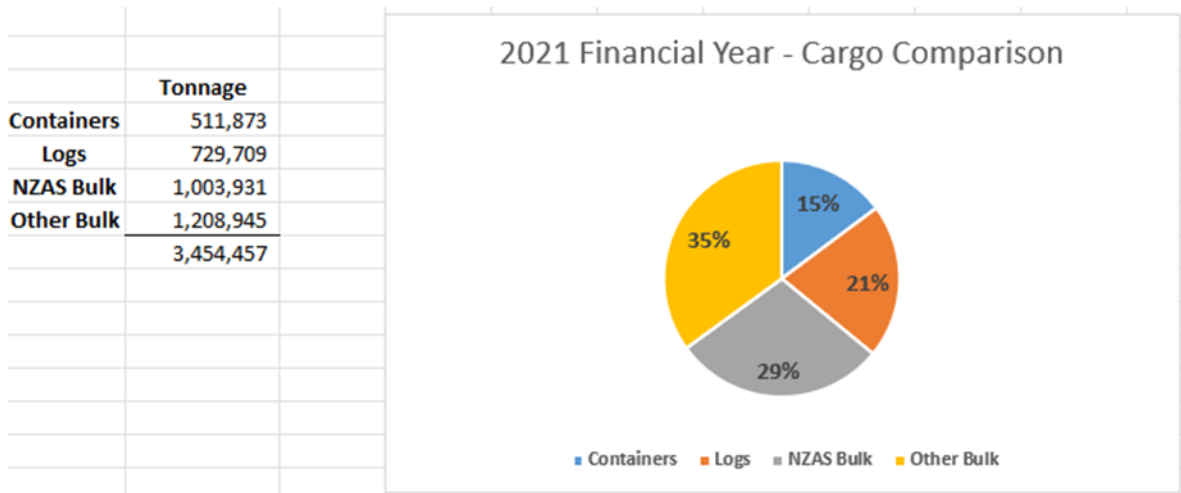


Figure 6: Cargo Mix (South Port)

- 49 The Port has played a key role in helping businesses and the regional economy grow in Southland and further afield contributing to the overall wellbeing of the region. A well-resourced and appropriately designed port future proofs and supports regional growth.
- 50 The last dredging campaign of the 1980's increased the port's capacity allowing it to keep up with the growth in domestic and global trade. However, the picture has changed, seaborne trade is increasing, and now the Port (and the region) is being restricted by vessel draft.

51 By deepening the Port, we will unlock the full potential and position Southland to take advantage of opportunities which may come along whilst maximising the opportunities for the current customer base.

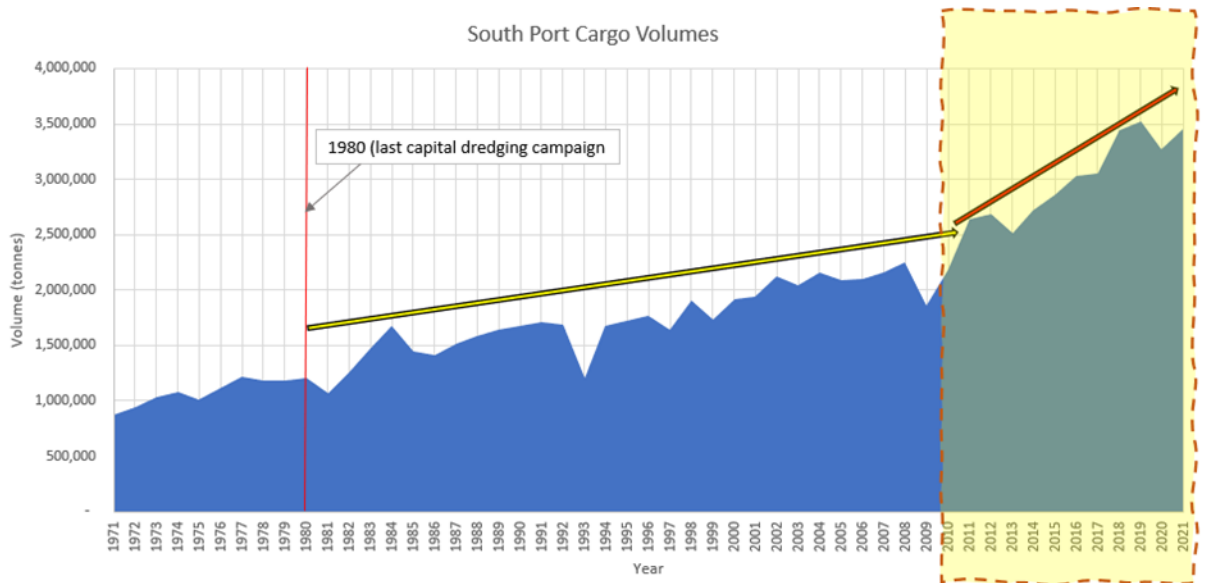
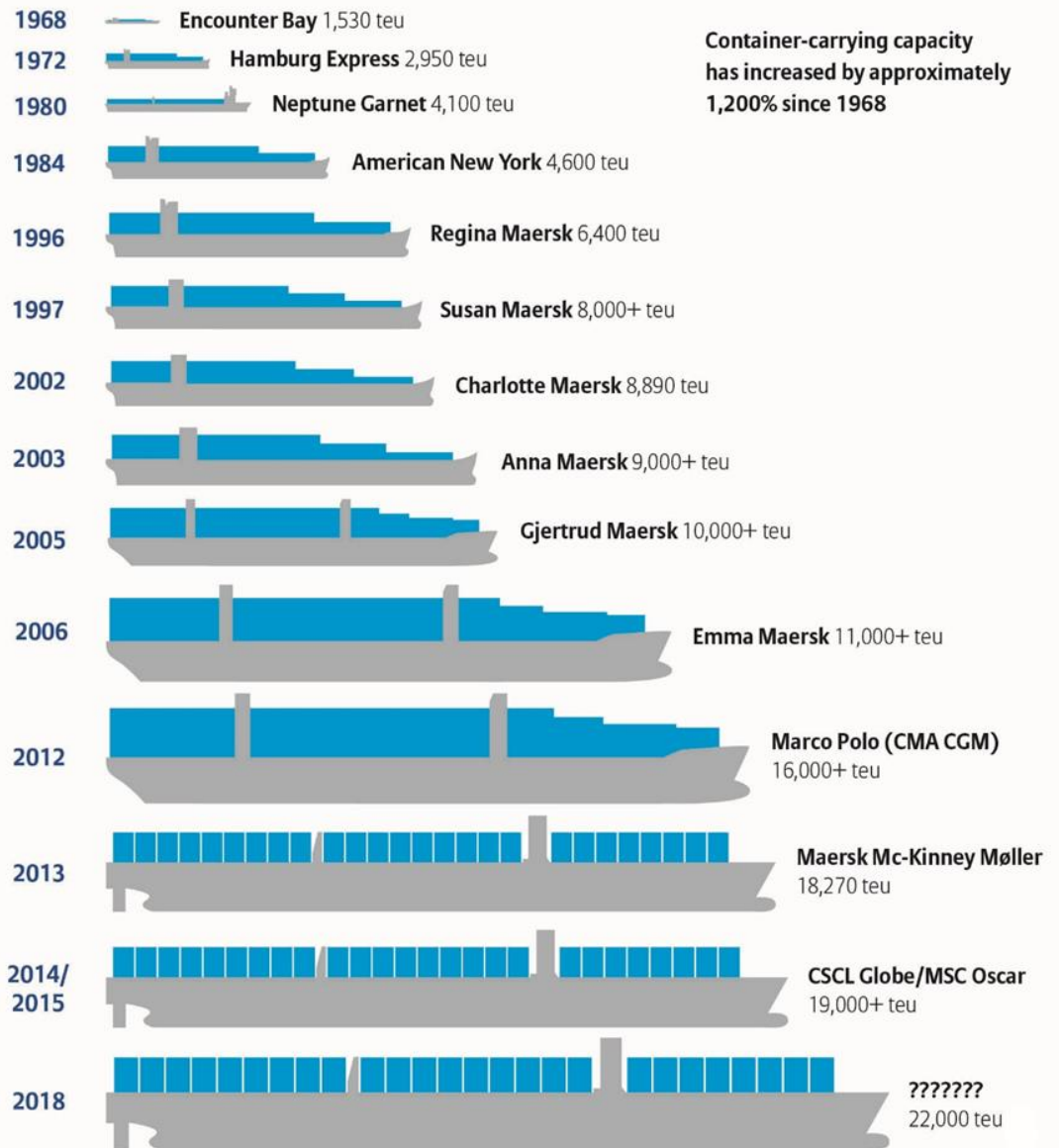


Figure 7: South Port cargo volumes

Change-in-ship-size & type

52 As mentioned above, trade needs to move around the globe quickly and inexpensively to ensure customer satisfaction and financial results are achieved. A key contributor to achieving this is moving cargo in bigger volumes; in other words, make bigger ships. The image below clearly shows how global ship sizes are trending.

50 years of Container Ship Growth



Graphic: Allianz Global Corporate & Specialty.
Approximate ship capacity data: Container-transportation.com

Figure 8: Ship size trend (Colmenares, 2022)

53 Looking closer to home, the table below compares average vessel size from 1980 (when last capital dredging took place) to the largest vessels handled by South Port today. The percentage increase is significant.

Year	Length (m)	Width i.e. Beam (m)
1980	196	26.6
2022	261	32.3m
Increase	33%	21.50%

Figure 9: South Port ship size increase since last capital campaign

Response to matters raised in Officer's Report

- 54 In relation to the Term of Consent, South Port accepts the Officer’s recommendation for a 5-year term. South Port are confident of completing the works within 5 years (once the contract starts).
- 55 However South Port does not accept the Officer's recommended Lapse Date of 31 December 2026.
- 56 The purpose of Project Kia Whakaū is to future proof the port and ensure it is in a position to service the region for generations to come. This can be achieved by increasing our cargo throughput and increasing the safety margins of vessels transiting the port. It is important to note the channel deepening is just one part of Project Kia Whakaū. The Project also includes significant infrastructure developments on the Island Harbour and will give raise to opportunities for improving the supply chain in the southern region.
- 57 The estimated cost of Project Kia Whakaū is between \$20M and \$30M.
- 58 The execution of Project Kia Whakaū will be a significant investment by South Port. The biggest investment in the Company’s history in fact (by some margin). The Company is NZX listed, and we have a duty of care to all of our shareholders when investing significant capital sums. This includes having a robust business case and ensuring we time the investment for the best possible result, both financially and also taking into consideration the environmental/social impacts.
- 59 When we started the consent process in 2019 (pre-Covid), volumes coming through the port were at record levels but over the past 24 months the global market has become more volatile and with the potential closure of NZAS this now takes on a greater importance. The proposal is to begin the dredging contract early 2023, however South Port requires some breathing space in the Lapse Date to allow for unforeseen circumstances (discussed in S92 Request responses).
- 60 A Lapse Date of 31 December 2031 provides South Port with flexibility if the business case does not materialise as anticipated.

- 61 We have a duty of care to all of our stakeholders and do not take this lightly. South Port as such has invested significant resource, time, and expense over the past 3 years engaging with the community and experts to get to this point.
- 62 As discussed above the proposal is to begin dredging in early 2023 (subject to consent being granted). We are currently holding workshops with potential contractors with a view of having the necessary dredging contracts in place by August 2022, if consent is granted. We would like to highlight that we are doing a lot of this work without a consent being granted, which shows the commitment by South Port to begin Project Kia Whakaū in 2023.

Nigel Gear

29 March 2022