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Global Round Table – Ports

September 2019

A WORLD OF INSIGHT
PORTS: KEEPING THE CHANNELS OF GLOBAL TRADE FLOWING

In August 2019, National Australia Bank hosted a Global Round Table with Treasury representatives from Associated British Ports, Peel Ports, NSW Ports and the Port of Tauranga to explore and share their insights on the opportunities and challenges facing port owners and operators.

The shipping container has been described as the "humble hero" of globalisation, transforming global trade over the past 50 years as ports have become more efficient and automated. More than 90% of world trade is carried by ship, making its way to market via ports in trade that the World Trade Organisation values at US$20 trillion.

Leaders from the British, Australian and New Zealand ports who attended this NAB Global Round Table have not been distracted by the current political backdrop of a possible trade war, and uncertainty over the UK's departure from the European Union.

In a wide-ranging conversation, the port owners and operators discussed their increasing focus on removing bottlenecks as goods move from the port to road and rail infrastructure; and on minimising the impact of their operations on the environment.

The UK's two largest port operators, Associated British Ports (ABP) and Peel Ports, reported that trade flows have been largely unaffected by the long drawn out process of Brexit.

"There's a lot of political talk, but 95% of the UK's imports still come in by sea. Whatever happens with Brexit, that isn't going to change. We are still an island nation and UK Plc still has to keep running," said Adrian Breakspear, Group Treasurer of Peel Ports, the UK's second largest port group. "Peel Ports have deep-water ports located on each side of the UK, putting us in a strong position to deal with European and global trade."

Shaun Kennedy, Group Treasurer at ABP, which manages a network of 21 ports handling one-quarter of the nation's seaborne trade, said broader economic shifts in demand were having a bigger impact on trade volumes than Brexit negotiations.

"We're not seeing a huge amount of growth but there's not much decline either. The exceptions would be coal, which is in long-term decline, liquid bulks and trade continuing to move to containers," said Mr Kennedy. "The other major shift we are seeing is around automotive, which has been pretty flat for the last few years but that could change in the longer term as car usage and ownership changes in the future."

There is also scope to shift to other ports as alternatives to Dover, where the risk of disruption from Brexit is potentially greatest or to participate in the mooted plans for 'free ports' (tax free zones to offset post-Brexit tariffs).

For the other ports participating in the Round Table, domestic economics dominated.

PARTICIPANTS IN THE NAB GLOBAL ROUND TABLE

Participants

Associated British Ports
Shaun Kennedy, Group Treasurer

NSW Ports
Alicia Palmer, Group Treasurer

Peel Ports
Adrian Breakspear, Group Treasurer

Port of Tauranga
Stephen Gray, Chief Financial Officer

Moderators

Jaron Stallard
Head of Infrastructure, Client Coverage, NAB

Melissa Gribble
Head of Capital Markets Origination, NAB

"We're highly leveraged to China, China is taking everything we can produce or cut down," said Stephen Gray, Chief Financial Officer at the Port of Tauranga, the largest export port in New Zealand with forestry, kiwifruit and dairy accounting for 80% of Tauranga's exports.

By dealing directly with exporters, such as Fonterra, with 10-year partnerships, the port has also largely avoided the fallout of consolidation of shipping lines in recent years.

NSW Ports Group Treasurer Alicia Palmer said the slowdown in the New South Wales state economy, as the broader Australian economy cools after 28 years of solid growth, has been evident in lower volumes coming through the port which is home to the state's largest container terminal.

While container growth averaged 5% over the past 14 years, or around twice the growth rate of the state economy, "we're seeing some of that growth rate coming back to about the same pace as the economy, at 2.5%," Ms Palmer said.

Sustainability in focus

Environmental and sustainability issues came up frequently in the Round Table discussion as a key focus not only for the port owners and operators, but their investors and bankers as well.

The environmental impact of container shipping compares favourably with air, road and rail transport because it emits the lowest amount of CO2 emissions per tonne transported. However, the sheer volume of global trade that is transported by sea means the sector has a sizeable carbon footprint.

"About 95% of the UK's imports still come in by sea."

— **Adrian Breakspear,** Peel Ports.

Overview of ports

	ABP	Peel Ports	NSW Ports	Port of Tauranga
Country	UK	UK and Ireland	Australia	New Zealand
Ports	21, including at Southampton, Immingham, Hull and Cardiff	7, including at Liverpool Manchester, London Medway and Dublin	Port Botany and Port Kemble in NSW	Tauranga (with operation of an inland port in Auckland). Stakes in ports at Timaru and Whangarei
Ownership	Taken private in 2006 by a consortium of global infrastructure investors	Private. The Peel Group and a global infrastructure investor	Privatised in 2013 to a consortium of global infrastructure investors under a 99 year lease	Public, listed on the NZ Stock Exchange in 1992. Bay of Plenty Regional Council owns c.54%
Business model	Largely landlord, with some operation	Largely Landlord, with some operation	Landlord	Owner and operator
Container throughput (TEU)	1.4m (2018)	n/a	2.65m (FY19)	c.1.2m (FY18)

Source: Port web sites

Maritime shipping accounts for a moderate part of conventional pollutants such as sulphur as well as about 2.6% of total climate change emissions, mainly carbon dioxide.[1]

Ports themselves are increasingly focused on reducing emissions from port activity. ABP is now one of the largest corporate producers of solar power in the UK, and has reduced its carbon footprint by 32% since 2014.

"We're doing a lot more reporting to shareholders and they are all very much focused on ESG (Environmental, Social and Governance). A lot of our creditors and our banks are asking what our ESG strategy is," said Mr Kennedy.

The use of financial incentives is growing rapidly across finance and industry to encourage continual improvement in environmental performance. At a recent NAB Global Round Table on airports, Heathrow also said it is offering incentives on airport charges to fuel-efficient and lower carbon planes.

NSW Ports introduced an environmental incentive on 1 January 2019 in the form of a rebate on port charges for ships with an emissions performance better than regulatory requirements, and Ms Palmer said it is the only Australian port with such a scheme. However, to the extent the same ships dock at other Australian ports, the environmental benefits will be shared along the eastern seaboard.

The incentive approach is used at many other ports globally, including Rotterdam and the Port of New York and New Jersey.

"A lot of our creditors and our banks are asking what our ESG strategy is."

— **Shaun Kennedy,** ABP.

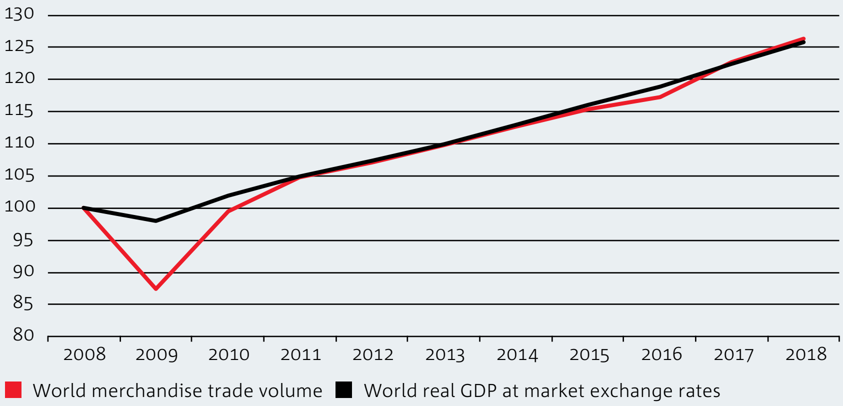
Emissions rise as global trade expands (million tonnes)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Global CO^2 emissions*	31,959	32,133	31,822	33,661	34,726	34,968	35,672	36,084	36,062
International shipping	881	916	858	773	853	805	801	813	812
Domestic shipping	133	139	75	83	110	87	73	78	78
Fishing	86	80	44	58	58	51	36	39	42
Total shipping (% of global)	**1,100** 3.5%	**1,135** 3.5%	**977** 3.1%	**914** 2.7%	**1,021** 2.9%	**942** 2.6%	**910** 2.5%	**930** 2.6%	**932** 2.6%

*Global CO2 estimates include CO2 from fossil fuel use and industrial processes (EDGAR, 2017).
Source: ICCT and IMO

1. http://www.imo.org/en/OurWork/Environment/PollutionPrevention/AirPollution/Documents/Third%20Greenhouse%20Gas%20Study/GHG3%20Executive%20Summary%20and%20Report.pdf

World merchandise trade volume and real GDP at market exchange rates, 2008-2018



Source: WTO estimates, IMF World Economic Outlook

Old routes, new routes

ABP's Mr Kennedy agreed that environmental concerns were having a big impact on rethinking how goods are moved through the UK after landing at the ports clustered in the south-east of England.

"Goods have come in to the UK in a certain way for a long time, and people have not necessarily considered whether it is the most efficient or environmentally friendly way. Brexit has given people a chance to rethink those trade flows."

While most cargo lands in the south-east and travels north by truck, there is a big push by government to take more trucks off the road and have goods shipped directly to northern ports to reduce road congestion, including ABP's Hull and Peel Ports' Liverpool.

Indeed, one of the oldest forms of goods transport – inland waterways – may be making a comeback. Peel's Mr Breakspear reported that canals are experiencing increased traffic as containers are put on feeder vessels that travel down the Manchester Ship Canal and other canals in the north of England, with large distribution centres emerging en route.

"The road network out of Dover has always struggled to deal with peak demand, and we see that congestion in Dover as a potential opportunity," Mr Breakspear said.

Port of Tauranga's Mr Gray noted that a five-year capital expenditure program for works to develop deep-water port capacity for Post-Panamax ships meant its berths were full "24/7" and container volumes have lifted 29% since 2016 as the port develops its role as New Zealand's cargo gateway.

Easing bottlenecks from ports to consumers

The port representatives at the NAB Round Table all reported a constant focus on the logistics of moving freight more efficiently and sustainably from ports to market and vice versa, in particular the shift to more rail transport instead of road transport and heavy investment in intermodal facilities.

"We are investing heavily with one of our operators to increase their rail terminal capacity to get a fully automated rail terminal on the dock. We have a role to play in ensuring those efficiencies, and bottlenecks from port to end user is something we are conscious of," said Ms Palmer.

She also voiced hope that the long-planned Inland Rail project, first proposed in 2006, would speed up freight movement for farm produce, and reduce heavy truck use of roads.

"As a nation we need to see a combined long-term planning process at both the Federal and state government levels. Road transport (of goods) is not sustainable over the long term at current trade growth levels," she said. Construction of the Inland Rail project began in 2018 to improve freight transit times from Melbourne to Brisbane and connect regional Australia more efficiently to markets.

The UK ports have also invested in the non-road logistics supply chain. ABP owns the country's busiest rail freight terminal in the heart of the country at Ham Hall, and Peel Ports' Liverpool2 investment includes a new rail container service.

Port of Tauranga has invested in a hub and feeder port model, including an inland port in Auckland with rail connections to Tauranga and a container terminal in the South Island. Transhipped containers now make up more than a quarter of container volume.

Closing out the Round Table discussion was an existential discussion related to climate change – and the threat of rising sea levels to port operators around the world. Both of the UK ports noted that severe floods in 2013 prompted changes to operations and long-term planning. "The floods taught us valuable lessons and we spent a lot of money in terms of changing the way our ports are set up. It's something we continue to spend a lot of time thinking about," said Mr Kennedy.

"I am always looking for tenor."

— Alicia Palmer, NSW Ports.

FUNDING: SHIPPING IN THE USPP INVESTORS

The Australian and British ports all expressed a preference for going to the US Private Placement (USPP) market for long-dated funding, and only ABP has a publicly listed bond.

NSW Ports Group Treasurer Alicia Palmer said the relatively short tenor of the Australian debt market of 5-7 years has prompted the port, which has a 99-year lease from the state government and long-term infrastructure investors, to tap the longer-dated USPP market in three transactions including a 30-year tranche. "I am always looking for tenor," she said.

The three ports all noted that USPP investors have a favourable view of the sector as part of their preference for infrastructure issuers and are comfortable with buying long-dated issues regardless of the backdrop of Brexit or other issues. "Our go-to market for raising new money remains the USPP market, there is still a lot of good appetite and a lot of new issuance," said Adrian Breakspear, Group Treasurer of Peel Ports.

Port of Tauranga Chief Financial Officer Stephen Gray said while its debt book was mainly funded through bank debt and short-dated issuance, it may look to diversify into the USPP market in the future.

ABP has also made a landmark transaction among UK corporates in the floating-rate debt market, where rates have traditionally been based on the scandal-hit Libor benchmark which regulators are seeking to replace from 2021.

ABP in June became the first UK corporate issuer to win agreement from bondholders to switch the benchmark for its 65 million sterling of floating debt rate from Libor to the new alternative benchmark known as "SONIA" (Sterling Overnight Interbank Average). SONIA is an overnight rate based on actual transactions rather than submissions from traders. "It's not often a major international rate benchmark is discontinued, and we didn't want to have that risk," ABP Group Treasurer Shaun Kennedy said.

Bloomberg estimates the amount of bonds, loans and derivatives outstanding around the world in various currencies that are still linked to Libor is about US$370 billion, meaning all issuers with Libor based instruments outstanding will need to go through the same process to win approval from creditor counterparties to switch to a new benchmark.

GET IN TOUCH WITH US

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