greater WELLINGTON
REGIONAL COUNCIL
Te Pane Matua Taiao

Submission on New Zealand Productivity Commission Report on International Freight Transport Services January 2012

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1. Introduction

Thank you for the opportunity to make a submission on the New Zealand Productivity Commission Report "International Freight Transport Services".

Greater Wellington supports the background to the report and remains committed to providing an excellent port facility for the Wellington Region. Greater Wellington believes the port is an essential infrastructural asset critical to the future wellbeing of the region. Greater Wellington remains committed to achieving the best use of capital and improving the productivity of the Port.

The report scope included "identify(ing) any impediments to the accessibility of the international freight transport services, and to competition within and between the components of the international freight transport supply chain" and to "identify mechanisms available to improve the accessibility and efficiency of the international supply chain".

The report is comprehensive and covers a wide range of issues across the transport sectors. While Greater Wellington has a degree of interest in wider transport planning issues, this submission focuses on matters pertaining to the ports.

Greater Wellington owns 76.4% of CentrePort via its subsidiaries WRC Holdings Ltd and Port Investments Ltd. The balance of the Port is owned by Horizons Regional Council. The company is run by a commercial Board (appointed by the Council) with significant business experience. Greater Wellington Chief Executive, David Benham, is also a member of the Board.

This response focuses particularly on four areas:

a) Port governance

b) Capital structures (ownership)

c) Reporting requirements and quality

d) Port performance.

2. General Comment

As a general comment, Greater Wellington notes the report is very comprehensive but is concerned that some unsubstantiated leaps of logic exist between the analysis of the current structures and the areas identified for improvement. The report focuses on returns on capital and overall productivity. It concludes that these are not as good as they could be. This could well be the case but it appears to "jump" to conclusions re private vs public ownership that are not substantiated by evidence in the report.

3. Specific comments

3.1 Port governance

The report implies that inept political interference of the governance level is hampering productivity. It goes on to recommend that the membership of boards by Councillors and officers should be prohibited.

Greater Wellington disagrees with the position and believes the governance arrangements needs to be considered on a case by case basis. As previously mentioned Greater Wellington holds its interest in the Wellington Port Company (CentrePort Ltd) via its holding company WRC Holdings Ltd. CentrePort is governed by a fully commercial Board that includes Greater Wellington's Chief Executive, David Benham. The holding company Board does not interfere with the day to day operations of the Port; that is the domain of the CentrePort Board. It focuses on overseeing the investment and setting the high level direction via the Statement of Corporate Intent.

Having the Chief Executive as part of the Board provides a useful conduit both ways for the flow of information. Conflict of interest issues are managed by formalising the Chief Financial Officer as the primary reporting officer to Greater Wellington for matters pertaining to the CentrePort investment.

3.2 Capital structure and ownership

The report is not categorically specific in its recommendations in this regard, but the report does imply that increased private ownership might lead to an improvement in returns on capital.

Greater Wellington contributes capital to CentrePort each year via retained earnings. Greater Wellington believes the balance of dividends extracted relative to the cash left in the business is appropriate for both the business and the shareholders. CentrePort has the necessary capital to invest in asset replacement and some business development opportunities. Should the company believe shareholder value could be enhanced by a significant business opportunity requiring a large capital injection, the options available would be considered at that time. Greater Wellington would require a sound business case to justify extra capital contribution.

Greater Wellington also Guarantees the debt of CentrePort for which it receives a fee. This has the effect of significantly lowering the cost of capital to the Port.

Partial selldown of Greater Wellington's share in the company would be possible. However, it is difficult to see what this would achieve in reality. It is not clear what a minority shareholder would do to significantly enhance the overall value of the firm or to lower its cost of capital.

Greater Wellington meets regularly with the Board Chairman and no concerns have been raised regarding the funding requirements of CentrePort.

3.3 Reporting requirements

The report states that there would be an improvement in the overall scrutiny of performance if ownership structures were changed. Specifically it alludes to reporting quality being improved. CentrePort has a very experienced Board who have developed reporting regimes that are based on the best corporate models. Greater Wellington does not believe that changes in ownership structures are necessary to achieve excellence in reporting and overall scrutiny. It is arguable that the legislative reporting requirements together with the corporate approach taken, topped off by public scrutiny, ensures the current ownership model delivers more scrutiny than via other routes.

3.4 Port performance

This submission focuses on the owner's perspective. CentrePort will also submit on productivity issues raised in the report.

CentrePort

Total book value of investment via Port Investments Ltd $44,000,000

$(M)	2008/09	2009/10	2010/11	2011/12
Dividend received (Policy is 40% to 60% of NOPAT)	3,824	3,977	3,077	4,000
Guarantee fee received by GWRC			370	480
Subvention payments received by Port Investments				840
Total cashflow from CentrePort (A)	3,824	3,977	3,447	5,320
GWRC share of CentrePort's shareholder funds (B)	146,287	148,964	154,891	159,189
Return on shareholder funds (A/B)	2.6%	2.7%	2.2%	3.3%
Capital gain from shareholder funds growth	5,097	2,677	5,927	4,298
Total cashflow from CentrePort (A)	3,824	3,977	3,447	5,320
Overall return from CentrePort	8,921	6,654	9,374	9,619
Overall return	6.1%	4.5%	6.1%	6.0%

The table above outlines the overall returns that have been achieved on the investment in the port. In broad terms, taking into account dividends, subvention payments, guarantee fees and growth in shareholders funds, the return to Greater Wellington exceeds the cost of capital.

Notwithstanding this, Greater Wellington strongly believes that simply focussing on a pure financial return ignores other strategic reasons for holding the asset. Both as an operational port and a key piece of regional real estate, the Port is a significant regional asset. Maintaining a commercially viable port is considered crucial to the economic outcomes of the region.

The Port is a significant hub for both freight and passengers that are integral to the region's overall wellbeing. Greater Wellington believes the Port is a natural monopoly that could mean monopoly profits to the owner at the expense of regional benefit if the Port was to be fully put into private ownership.

Access to the real estate for the community is considered important to the overall wellbeing of the region. Greater Wellington believes this is better achieved through the current ownership structure.

4. Summary

Greater Wellington remains committed to the commercial imperatives of running a successful port business. It has in place corporate governance and reporting arrangements that allow for sound commercial disciplines to be applied. Greater Wellington acknowledges that in pure financial terms there are other investments with higher commercial returns. That said, Greater Wellington believes it is covering its real cost of capital and is not using ratepayers to subsidise a loss making venture. When added to the other strategic benefits of holding the Port in Regional Council hands and the risk of monopoly behaviour if the Port was fully privatised, Greater Wellington sees no case for significant change to the current regime.