

## PROJECT DECISION CRITERIA



Presentation by  
Martin Byrne  
Chief Executive  
Port Nelson New Zealand



## Discussion Points:

- New Zealand Port structures and locations
- Expectations around Economic Projects
- Projects with more than simply economic criteria
- Community Relations / Environmental Projects
- Summary



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## NZ PORTS



## New Zealand Ports Structures:

- New Zealand Port Companies created in 1988 from former Harbour Boards (Port Authorities) under the Port Companies Act 1988(PCA)
- Ownership principally sits in the hands of local councils with 4 companies partially listed on NZ stock exchange
- **‘The principal objective of every port company shall be to operate as a successful business’ (PCA 1988)**
- Has been open to different interpretations over time
- Much more than just landlord ports – varies across NZ but can include Stevedoring, Pilotage, Towage, Warehousing, Vanning / De Vanning



## Port Nelson Limited (PNL) Objectives:

- To operate as a successful business
- To be a good employer
- To work within a debt to equity ratio not exceeding 45% (31 / 69)
- To aim to grow the business through stimulation of throughput, added value services and related business activities, so leading to increased revenue
- To achieve a commercially acceptable rate of return on shareholders funds





## Port Nelson Limited (PNL) Objectives:

- To ensure Port development takes place which meets the needs of the region
- To ensure that high environmental standards are maintained
- To strive for continuous improvement in everything we do – J2E (Lean)
- Since 1988 have paid more \$130 million through dividends, special dividends and share buy backs to our shareholders



## Expectations Around Economic Projects:

- Non operational land holdings – expectations of returns around 6.4% per annum
- Non operational buildings expectations around 11%
- When considering new investment property developments weighted average cost of capital (WACC) around 11.25%



## Expectations Around Economic Projects:



- Generally speaking developments on Port reclamation areas should link to our core business
- Developments that also link to key exporters / importers highly favourable
- Developments should align to our Values and environmental practises around noise, emmissions etc





## Summary – Economic Projects:

- Very clear cut financial criteria
- **If the projects don't meet that criteria unlikely to proceed**
- Very much supply and demand driven around things like property developments
- Can be influenced by outside factors - ie Canterbury Earthquake – earthquake prone building issues



## Non Purely Economic Projects:



- Areas such as tug and wharf developments always challenging, particularly when dealing with container lines
- Trade facilitation always a critical factor, along with maintaining competitiveness
- Risks around marginal pricing always a concern





## Non Purely Economic Projects:

- Is the investment as future proofed as it can be – is it too reliant on one party without long term commitments?
- Wharves and sheds can't be easily relocated !!!
- Cut your cloth according to your situation and your means – must be sustainable



## Non Purely Economic Projects:



- Important to look at berth utilisation / flexibility and not just focus on replacing like for like or catering for peak periods –
- Focus around capex always what you need to have / not just nice to have – no Field of Dreams philosophy



## Non Purely Economic Projects:



.....need to have



..... nice to have





## Non Purely Economic Projects:



.....need to have



..... nice to have



## Non Purely Economic Projects:



.....need to have

..... nice to have



## Summary – Non Purely Economic Projects:

- Slightly hazier set of criteria
- Need to link to Vision and Company objectives
- Cargo facilitation can be clear driver
- Hard with container lines in particular to secure 'commercial' returns
- Link to regional development and economic performance



## Environmental / Community Relations Projects:

- Local Body / State ownership can play a big part in these
- Access to Port areas a lot more restricted since Maritime Security Act passed in 2004 following on from Sept 11
- People in Port cities have close affinity to the Port and important to retain that where possible
- Projects obviously differ in scale depending on size of Port but principals the same





## Environmental Projects:

- Perception is reality as far as the public is concerned in environmental matters – in our case use of Methyl Bromide (MB) for treatment of export timber
- Perception could be a link between use of MB and instances of Motor Neurone Disease (unproven)
- Important to 'front foot' the issue and be proactive around addressing concerns





## Environmental Projects:

- Where immediate options such as relocating fumigation sites away from high congestion areas existed take those
- Then work on long term options such as utilising recapture technology which add costs but greatly reduced risk – real and perceived and risk of reputational damage
- Focus on benefits of such action and where possible seek consistency across member organisations





## Environmental Projects:

- Another good example around noise mitigation
- PNL have spent significant funds in work related to noise mitigation to ensure 24 hour cargo work could continue
- No economic return as such but financial and economic ramifications huge if nothing had been done



## Community Relations Projects:

- Important where possible to 'win the hearts and minds' of the wider community
- Initiatives such as school tours, Community group tours, Port open days are also options to stress wider importance of Ports to the region – children an important target group
- Sponsorship where applicable and particularly if link to Port area such as water based sports, Coastguard, Sea Scouts, etc



## Community Relations Projects:



- Link with key importers / exporters where possible
- Reference to wider economic benefits to the region, jobs etc and negatives of the alternative
- Link to environmental areas also good from a community perspective



## Community Relations Projects:

- 120 year old lighthouse that was decommissioned in 1980
- No longer used for operational purposes but still something of a local Icon
- PNL embarked on a restoration of the light and using modern technology light up in the evenings in a non intrusive way (with some environmental challenges!!)
- Ports often seen in negative rather than positive light by neighbouring communities







## Summary – Environmental and Community Relations Projects:

- Regional ownership can influence such projects
- Important to try and 'win hearts and minds of the community
- Focus on importance of the Port to the wider community
- Link with key customers if possible and appropriate





## Overall Summary:

- A myriad of issues to consider when looking at Port related projects
- Should always ask ourselves '**do we want to do it**'
- Straight forward property development projects stand or fall on supporting business case
- Trade / cargo linked projects more complicated areas
- Community / Environmental projects often about protection / enhancement of organisational reputation



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## Thank You

