



# Coastal shipping: fostering a resurgence

Coastal shipping is making a comeback. The combined impact of the pandemic and an increasing focus on resilience and sustainability is driving a renewed focus on the role of coastal shipping. 2022 saw the government allocating \$30 million in funding to co-invest in new coastal shipping vessels.

Coastal shipping has the potential to help secure supply chain resilience, reduce carbon emissions, and enhance connectivity throughout New Zealand.

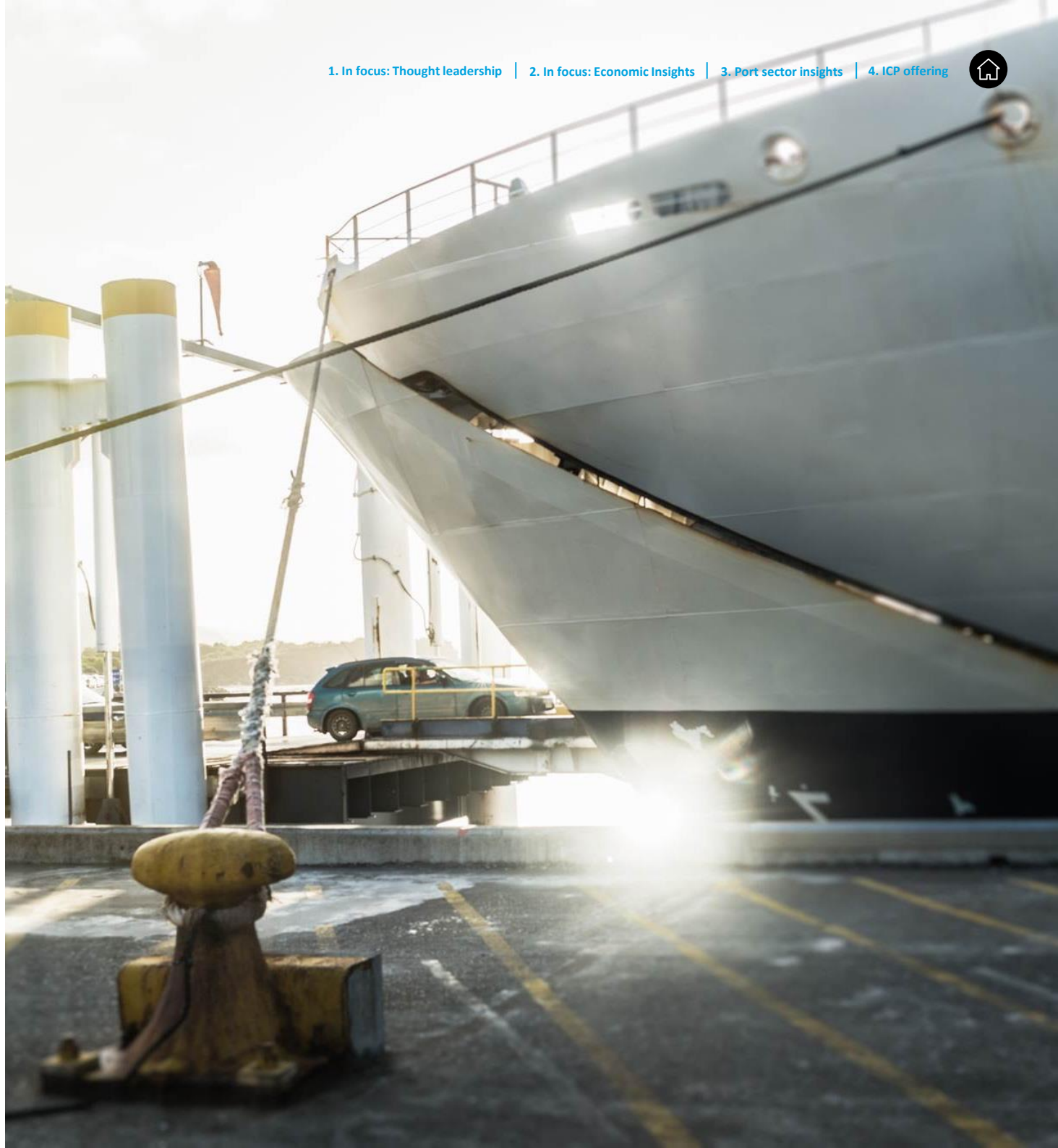
In this article, we explain the drivers for its resurgence, the current state of play, and provide a view of coastal shipping's future.

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# Drivers of the comeback

## Coastal shipping context

Coastal shipping in New Zealand consists of a mixture of container, bulk and liquid, and roll on, roll off (ro-ro) cargoes, moved between New Zealand ports.

Container cargoes between New Zealand ports are largely moved by international carriers<sup>1</sup>, who until recently moved cargo at relatively low rates, reflecting the low marginal cost of spare capacity on their vessels. While this benefitted shippers and end consumers, it has challenged the economics of domestic coastal shipping operations.

In recent times, Pacifica has been the only dedicated domestic container carrier, operating one vessel. This compares with around 30 years ago, where there were 34 New Zealand-flagged vessels.<sup>2</sup>

Reliance on international lines for much of the coastal containerised freight task has exposed resilience issues during the pandemic.

Coastal shipping is estimated to support circa 3.5% of New Zealand's freight task by volume. While it currently supports a relatively small share of our freight requirements, its role in the supply chain looks set to grow in importance following recent government investment in the sector.

The increased focus on coastal shipping reflects an increasing need to enhance the resilience of our supply chains, to decarbonise heavy transport as well as an emphasis on mode neutrality in the most recent National Land Transport Programme (NLTP).

## Government investment

In 2021, for the first time, the Government Policy Statement on land transport allocated between \$30 to \$45 million in funding from the National Land Transport Fund (NLTF) for investment in coastal shipping.

In allocating this funding, Waka Kotahi New Zealand Transport Agency sought applications from industry across the following four areas:

- New or enhanced domestic services – new container services and new bulk services or increased frequencies and additional ships for existing container and bulk services.
- Reducing sector emissions – testing emerging technologies for decarbonising domestic shipping.
- New or enhanced inter-modal links – new inter-modal links or improvements to existing inter-modal links, such as track works or road access improvements.
- New or enhanced maritime infrastructure – shore power connections at ports, new (small) regional ports, and expansion of existing ports.

Waka Kotahi has co-invested this funding with four successful suppliers. Collectively, the suppliers will be investing over \$60 million to deliver new or enhanced domestic services (**described on the next page**), resulting in combined investment in the coastal shipping sector of over \$90 million.

## What's behind the coastal comeback



### Resilience

Recent supply chain disruption has highlighted issues with relying on international vessels to facilitate coastal shipping. Schedule unreliability driven by global supply disruption has resulted in shipping lines reducing calls and their focus on shipping domestic cargo. This has resulted in calls for an expanded domestic coastal shipping fleet to increase resilience through reduced exposure to international supply chain disruption.

Coastal shipping also has other resilience benefits in a country where land transport networks are regularly impacted by extreme weather events and earthquakes. A coastal shipping network diversifies risk and helps ensure that supply disruptions due to natural disasters are minimised.



### Decarbonisation and other environmental objectives

The government's Emissions Reduction Plan has set targets for reducing overall emissions from freight as well as emissions intensity. Coastal shipping typically has lower emissions intensity per tonne compared to road freight.

Coastal shipping also has other sustainability advantages - avoided truck trips reduce wear and tear on the roads, as well as the adverse impacts of heavy vehicles passing through towns and cities (noting that port and shipping activity still have adverse environmental impacts, including noise and greenhouse gas emissions).



### Mode neutrality

The allocation of the NLTF has increasingly reflected the principle of 'mode neutrality' in allocation decisions. This means considering all transport modes and investing in modes that deliver desired transport outcomes and best public value. Reflecting this, the most recent Government Policy Statement created dedicated activity classes for coastal shipping.

In the coastal shipping context, the government has stated that it wants to 'embed mode neutrality and choice for freight transporters, to allow New Zealand flagged coastal shipping to operate on a level playing field with other freight operators, and to enhance the sustainability and competitiveness of the domestic sector.'



# Domestic developments

## National Land Transport Programme co-investment

Through the National Land Transport Programme (NLTP), Waka Kotahi have allocated \$30 million towards coastal shipping activity to support upfront capital investments in new vessels. Applicants will cover ongoing operating and maintenance costs and these vessels are expected to be in service by June 2024. The recipients of this funding were:

**Aotearoa Shipping Alliance (Ngati Waewae, Te Rimu Trust, Tainui Kawhia Incorporated, and Westland Mineral Sands)**

\$7 million to upgrade barge services in the East Cape, Kawhia, and the West Coast of the South Island, including procuring and upgrading vessels, upgrading ports and training crews.

### Coastal Bulk Shipping Ltd

\$5 million to contribute towards the capital cost of a bulk material vessel.

### MOVE Logistics Group Ltd

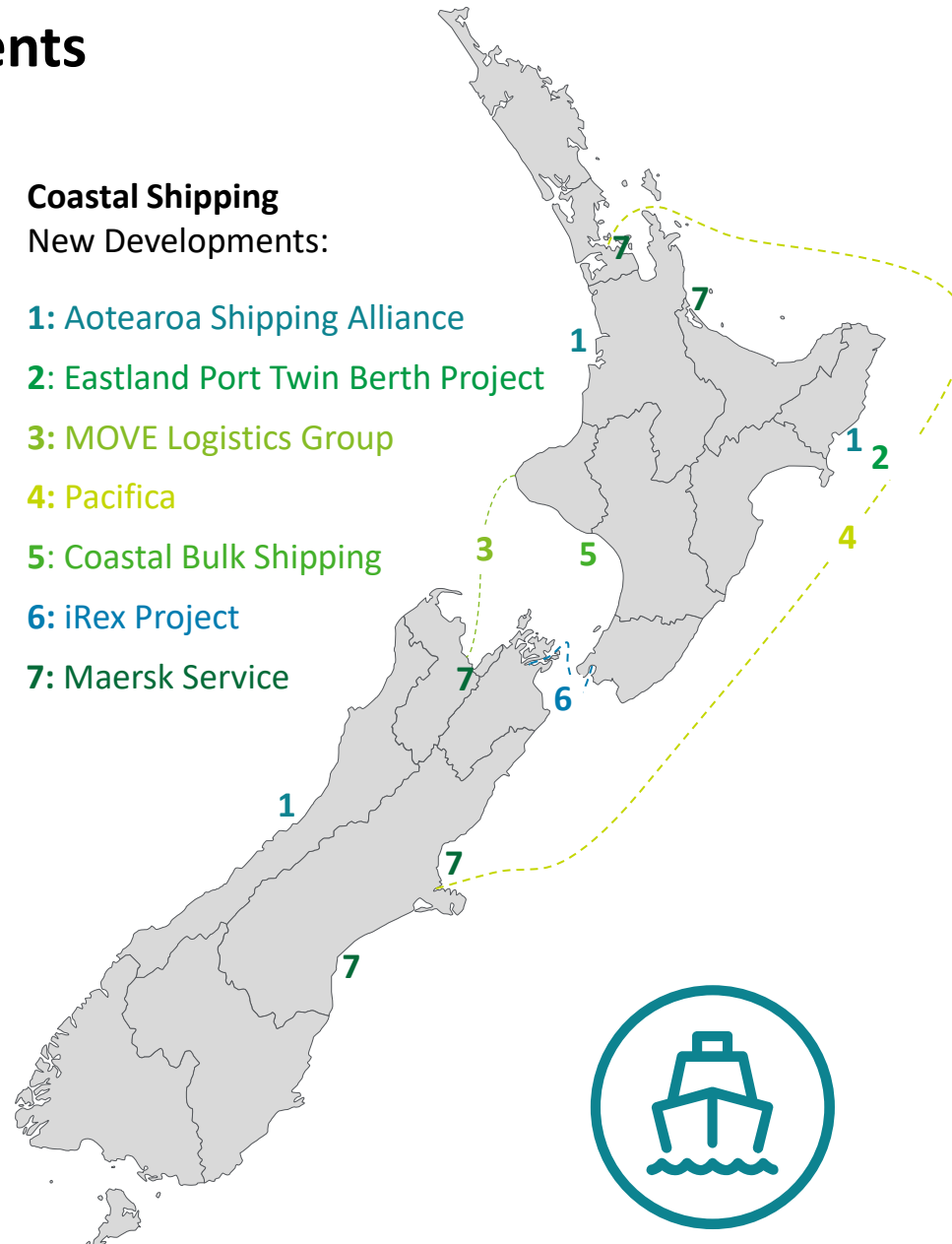
\$10 million to contribute towards the capital cost of obtaining two new quarter ramp roll on/roll off vessels, operating between Nelson and New Plymouth.

### Swire Shipping NZ Ltd (Pacifica)

Up to \$10 million to contribute to the operating costs of a new 1740 TEU vessel, to operate between Auckland and Lyttleton and expand coverage into regional ports.

## Coastal Shipping New Developments:

- 1: Aotearoa Shipping Alliance
- 2: Eastland Port Twin Berth Project
- 3: MOVE Logistics Group
- 4: Pacifica
- 5: Coastal Bulk Shipping
- 6: iRex Project
- 7: Maersk Service



## Other relevant developments:

### Maersk Coastal Service

Independently of the NLTP supported services, Maersk also launched dedicated coastal shipping services in July 2022. These services link Tauranga, Timaru, and Lyttleton on a weekly basis, and alternate between Auckland and Nelson weekly.

Maersk stated that the creation of these services was a direct response to recent supply chain disruptions – helping provide resilience to their network by ensuring reliable connections to their international services.

In March 2023, Maersk announced it was phasing out these dedicated coastal services as a result of a planned upgrade to their Trans-Tasman Polaris service.

### Cook Strait Services

KiwiRail's \$1.45 billion iRex project will replace three of its interisland ferries with two new rail-enabled ferries that are more environmentally friendly and will increase rail capacity by 300%. The project will also deliver upgrades to both terminals, with works now underway at Picton.

A new vessel, the MV Connemara, joined Bluebridge's fleet in early 2023.

### Eastland Port Twin Berth Project

This project will enable two 185-200 metre vessels to berth at once, with a view to also increasing the viability of Gisborne as a location for coastal shipping. Stage 1 is expected to be completed by October 2023, with Stage 2 currently awaiting resource consent.





# Trends and future success

## Future drivers of success

With co-investment and other industry developments unlocking new coastal shipping services, we are currently looking at a potential step change in domestic coastal shipping activity.

There remains, however, significant challenges ahead for coastal shipping operators and policy makers to navigate if this mode is to play a larger role in the national supply chain.

It remains to be seen if the new coastal shipping services unlocked by government co-investment will be commercially viable over the longer run. The NLTF funding only supports upfront capital investment, the current GPS on land transport does not indicate any further support for coastal shipping beyond 2024/25.

The Ministry of Transport's 2022 supply chain issues paper also notes that coastal shipping and rail tend to compete for similar types of cargo, that is bulk or non-time sensitive cargoes that need to be moved over longer distances. With significant investment underway into the national rail system, this may increase competition for a similar segment of the freight task.

The Ministry's paper also acknowledges 'It will take time and substantial investment to improve New Zealand's rail and coastal shipping capacity, and enable these modes to compete more effectively with road.'<sup>3</sup>

Other challenges for domestic operators include:<sup>4</sup>

- Competing against international shipping operators, as supply chains normalise – international lines do not pay emissions trading scheme levies and have greater flexibility to price domestic cargoes at marginal cost.
- Lack of domestic dry docking capacity (which may be addressed through the proposed Northland Dry Dock).
- Reliable access to container terminal berth space.

A factor in coastal shipping's favour is the increasing drive towards the 'hub and spoke' model in container shipping. With cargoes potentially consolidating in fewer ports over time, coastal shipping may take on more of a role with distributing cargoes from those ports to secondary hubs.

Finally, the impacts of recent weather events have underscored the resilience value of shipping when road and rail networks are damaged.

## Decarbonisation

In its supply chain issues paper, the Ministry of Transport has also identified the need for the coastal shipping sector to decarbonise over time. In addition to our national goal of net zero emissions by 2050, New Zealand is a signatory to the Clydebank Declaration, which aims to establish zero emissions 'green shipping' corridors.

While coastal shipping is currently seen as relatively carbon efficient, it is still predominantly fossil fuel powered.

Energy transition will not be costless for operators, who will need to identify and invest in low or zero carbon forms of propulsion. This may also require supporting investment in landside infrastructure. Close cooperation between operators, ports and government will be required to overcome this challenge.

### References:

1. New Zealand freight & supply chain issues paper (2022) [Freight-and-supply-chain-issues-paper-full-version.pdf \(transport.govt.nz\)](#)
2. <https://www.nzherald.co.nz/business/the-urgent-case-for-a-dedicated-nz-coastal-shipping-revival/4723F3SCXAV55XB5ZGEJUNMNI>
3. New Zealand freight & supply chain issues paper (2022) [Freight-and-supply-chain-issues-paper-full-version.pdf \(transport.govt.nz\)](#)
4. Coastal Shipping Investment Approach Report 1 - State-of-Play (2021) [Coastal Shipping Investment Approach: Report 1 - State-of-Play \(nzta.govt.nz\)](#)

