

**PRODUCTIVITY COMMISSION**

**INQUIRY INTO THE SUBSIDISATION OF CONTAINERISED AND BULK  
SHIPPING BETWEEN THE MAINLAND AND TASMANIA**

Submission by ANL Container Line Pty Ltd

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The Tasmanian Freight Equalisation Scheme (TFES) was introduced in 1976 with the objective to “*establish a cost equalisation scheme to alleviate the freight cost disadvantage incurred by shippers of eligible non-bulk goods moved between the mainland and Tasmania by sea*”.

As put more broadly by DOTARS;

*“Its objective is to provide Tasmanian industries with equal opportunities to compete in mainland markets, recognising that, unlike their mainland counterparts, Tasmanian shippers do not have the option of transporting goods interstate by road or rail.”*

ANL operates the ANL Bass Trader on a dedicated shipping service between Melbourne and Tasmania, which began operation in 2002. Whilst not directly a claimant of the scheme, ANL’s experience in the trade gives us first hand experience of the outcomes achieved and the Schemes ongoing national and regional importance.

In reference to the Scheme as a whole and the points raised in the Commission’s Issues Paper we would make the following comments;

## 1. The Objectives of the Scheme

The Scheme remains as relevant today as when it was originally established and this has been ratified by previous reviews. Tasmanian businesses are substantially disadvantaged by the lack of transport alternatives to source production inputs and connect production to major markets. The choice of road or rail links and the option of modal switching are not available to Tasmanian businesses which are almost entirely dependant on sea transport.

It is of national importance for Australia to have diversified businesses both in their nature and geographically. This brings with it employment and growth opportunities as well as a degree of insulation to the variations in market cycles. Therefore as a regional economy with limited transport links, Tasmania remains a special case and requires continued Government support.

Any reduction or wind back of the scheme would have a devastating effect on businesses in Tasmania and resultant widespread negative impact on the broad Tasmanian community.

## 2. Issues related to Shipping Companies

The issues paper asks;

*“Do shipping companies have significant market power in setting freight rates and is there evidence that they been using this power to appropriate part of the subsidies intended to assist Bass Strait shippers?”*

It is clear that freight rates across Bass Strait are set based on supply and demand in a very fluid and contestable market. Each of the main freight players, Patrick Shipping

(now owned by Toll), Toll Shipping, TT Line and ANL have a differing service offering in terms of Tasmanian port coverage and service frequency. In addition there is considerable cargo seasonality and substantial over capacity on the route. (This was confirmed by the ACCC's review of the Toll takeover of Patrick.) This leads to strong competition for freight. Therefore the market for freight rates and the subsidy scheme coexist over the same stretch of water but they operate completely separately.

The issues paper also asks;

*“What is the scope for route-specific innovation to reduce the cost of Bass Strait shipping services? Are there examples where high rates of subsidy (relative to freight cost disadvantages) have led to delays in the implementation of cost-effective innovation, or the failure to investigate ways of overcoming identified inefficiencies in these services?”*

ANL is constantly looking for cost and efficiency gains and the other operators on the route are no doubt doing likewise. The existence of the subsidy nor its level, has no impact on innovation or the pursuit of improved efficiency. A recent example in the industry is Patrick Shipping's 2004 introduction of Australia's first automated vessel mooring system which eliminates the labour component.

### 3. Alternatives to the current arrangements

The original objective of the Scheme coupled with ongoing national and regional development goals should ensure the support to Tasmanian business embodied in the current scheme remains unchanged. To improve the scheme we would suggest the Commission examine extending the scheme to potentially cover all sea freight across Bass Strait as there seems limited rational for the current restricted coverage.

The issues paper asks;

*“What transport sector reforms would be most beneficial in alleviating the cost disadvantages facing Tasmanian shippers? For example, are there changes that could be made to the single and continuous voyage permit regime that would make these arrangements more accessible for the State's shippers?”*

We consider that transport sector reform in the voyage permit regime as a mean of alleviating the cost disadvantages facing Tasmanian shippers would not be beneficial. The operation of Bass Strait shipping by permit vessels would not guarantee lower freight costs. Also permit vessels are foreign vessels undertaking some Australian legs within an international voyage, as such they could not provide the reliability and frequency of service that Bass Strait shippers require. Such a change would work against shippers' interests leading to an uncertain environment not conducive to business growth and ongoing investment.

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