

Logistics mess strangling Tasmania.

The Australian government productivity commission is undertaking an enquiry into Tasmania's shipping and freight costs of competitiveness of its freight industry.

The fundamental issues for Tasmania as an island, is that it faces a logistics mess and a series of mismatched strategies generated by public servants who have no concept of long-term logistics efficiency.

For example the Victorian Treasury have decided to promote Hastings after impacting users of port Melbourne with a charge on top of the normal in order to recover \$500 million worth of dredging costs

They might as well put a neon sign on Port Phillip heads that said don't use this port.

The private sector treats capital more carefully than those in the public sector. The accountability to shareholders is a primary feature of private sector business operations, whereas there is essentially no accountability in the operation of public sector Capital.

Tasmania has struggled for 30 years with a logistics mess that is slowly strangling the state's economy.

It's not a question of price in so much as a question of efficiency. If the price of the container from Burnie to Melbourne is \$2500, and the price of the container from Melbourne to Shanghai is \$584, then the question is efficiency.

To put this submission into its proper context I offer the following observations to you:

There are several key issues that have been abandoned by the Tasmanian government, or not even thought of.

1. Government logistics investment.

The Tasmanian government owns Tasrail and the TT line, and are the *only entities with the capacity* to make any difference whatsoever in regard to freight efficiency, especially competitive pricing.

In this regard it would be in [the](#) interest of the Tasmanian Government to aggregate both companies into the Tasmanian Logistics Corporation, develop a port link policy where freight is directed to the appropriate port, this is not being left to market forces, so as to ensure, full use of the railway and port logistics capacity, and thus generate a market competitive outcome.

If the process is left to Market forces in a *non tensioned economy* all that happens is that Truck transport which has been the norm, given the previous poor state of the rail system, continues to predominate.

It is worth reflecting here that it is not abnormal for Government to mandate rail transport rather than road, and this is quite common in Europe. It reduces Government capex requirements for roads as they do not get loaded beyond capacity.

Creation of the Tasmanian Logistics Corporation also reduces the price paid by the people of Tasmania for two separate sets of administrative costs and the cost of two separate boards.

As Tasrail is the bigger of the two organisations it would be appropriate that Tasrail took the Ports Corporation completely over.

It is estimated there will be some \$10 million of savings in the first year in operating costs, and thus reduced charges to the consumers.

I note here that Tasports lost some \$6m in the past 12 months and will also quite probably have a loss in 2013-2014. In this regard most public service organisations simply put up the price to the users given their monopoly status.

Thinking outside the square in relation to competitive pricing for the cartage of TUE's, for example, there is nothing to stop the government via TT line purchasing or leasing a small 20,000 t container ship and operating container services from Bell Bay to Port Melbourne, and from Burnie to Port Melbourne several times a week.

This would generate competitive pricing across Bass Strait.

It would be able to provide links to international shipping that may or may not in the future be able to resume at Bell Bay given quantity of TEU's to be moved on each voyage cycle.

Freight generally is these days not stockpiled, as inventory costs are too high.

At least this step would generate some long term certainty of the Bell Bay industrial area in terms of getting product to market.

It will also free up some space on the Ro Ro's (Roll on Roll off) Spirit ships allowing more vehicle traffic and fresh produce which is just as profitable as bulk freight.

The TT line is also the only reliable provider on a daily basis for fresh freight in containers going out of the island.

This will be even more of a concern as TT line admits that it is at capacity with the truck trailer borne fresh freight, yet the Tasmanian Government has been expending hundreds of millions on the irrigation food bowl projects with little thought as to how the product would get to market if at all.

This in itself is an indictment of the inability of the private sector to generate a reliable service.

It basically says there is no competition.

The costs of bringing vehicles to Tasmania in private sector ships, is substantially more than bringing vehicles to Tasmania on the TT line ships.

This is due to their relative inefficiency; their archaic work practices, and their inability to operate these ships at a level of activity that would make them profitable without subsidy.

The TT line does quite well in competitive terms.

2. Port Hastings instead of Port Melbourne.

Essentially the Victorian government and Treasury have made a decision that the **development of the Port of Hastings is now to be a priority**, as the limitations on the transit lanes in Port Phillip Bay and the enormous cost of dredging cannot be sustained.

You have seen recently the levy placed on shippers in order to recover costs of the last \$450 million of dredging.

The Port of Hastings Development Authority Act is evidence of this.

For Tasmania, a re-focused smart government, would have by this stage, taken a decision to joint-venture with the Victorian Government on the Port of Hastings development, and got early Federal funding for the initial stages of modification to the existing roll on roll off ship berths, and made an announcement that the Spirit Ships would be transferring from Port Melbourne to the Port of Hastings.

It is worth noting that Hastings has large pre-existing dredged swing basins for ships, well developed wharf facilities and the entire basic infrastructure needed for a port which it is.

The cost of the expansion of Hastings is substantially lower than a Greenfield site with all the attendant environmental engineering prohibitions.

Interestingly, the run-time from Devonport (Spirit RoRo) to the Port of Hastings is about six hour's duration, where the run-time from Devonport to Port Melbourne is 10 hours duration.

Two ships can therefore generate around 30% more capacity for the same employed capital, running Devonport to Hastings.

In other words one complete ship annually in capacity is returned to the logistical cycle.

This gives the TT line a large increase in business capacity, whilst at the same time reduces the costs on fuel. Alternatively it provides a 30% cost reduction for the same revenue.

You get therefore, the capacity an additional ship without buying one.

The money already invested by the people of Tasmania actually starts working harder.

This would do several additional things.

It would increase freight competitiveness, increase tourism traffic, especially vehicles, as the price would drop, being relative to length of journey and fuel, whilst at the same time, the Bass freight equalisation freight scheme would have the *same application but at a reduced unit pricing support factor* as the costs would be down.

Hastings has standard gauge national rail track connections, good present facilities, and requires very little in the way of upgrading works to accommodate additional shipping, apart from the specialised berths needed for the Spirit Ships and the relatively simple onshore facilities required by TT line which, is essentially fencing, office space, and security facilities.

It is not that far from the Melbourne CBD.

Any further development of Hastings to accommodate larger container ships (100,000 Tonnes plus Maersk) will of course be a Victorian Govt decision over the long term.

I therefore would suggest that if the Port Hastings was used as the primary Tasmanian mainland link, then a TT line owned container ship could probably operate a bi-daily service from Bell Bay fed by the rail system and generate most if not all of the container traffic required on the island.

This would then put the port of Burnie into the proper perspective as a bulk cargo port, and it could be further developed as such.

If nothing is done the capacity of Burnie will remain limited and thus bulk coal cargoes and other minerals will have difficulty getting exported. The Burnie Port is ideal for expansion for bulk cargoes.

In thinking this through, it is necessary to set aside the use of trucks and roads, and concentrate on rail and ports as this will be the focus of any Federal Funding coming from Infrastructure Australia.

There is not much point in having a focus on roads, if you still cannot get the goods out of the ports, or the industry shuts down as there is no competitive freight access.

The Federal Treasury will probably not support any increase or expansion of the TFES until the port and rail issues are fixed and freight rates come down.

This is the primary reason for your review of Tasmania's shipping and freight. The present paradigm must change.

Given that money will be short, then a clear focus has to be arrived at, or else nothing will be done.

In the end it is all about logistics efficiency and a profitable rail and ports corporation, and increased outcomes with the same or reduced federal subsidy.

The primary issue is logistics efficiency within and to and from Tasmania, and to gain a port such as Hastings for the future.

Strategic issues:

Tasmania cannot continue to operate into port Melbourne as the costs will simply escalate from their very high base at present.

The costs of freight will become prohibitive and the present Melbourne Ports charges are based on the Commonwealth subsidy levels of the TFES.

You will also recall that the rolls on roll off spirit ships do not go to a port facility in Melbourne *that has any rail linkage*, and as a result everything has to be trucked to and from the ship through the centre of Melbourne.

Handling costs are excessive.

2. The Hastings option has been reviewed extensively by the Victorian Treasury, and the upgrading of the Hastings Port Development Corporation last year by legislation is a clear signal that further development of port Melbourne *is not a future option* for Victoria.

The reason for this is the costs of maintaining the channel through Port Phillip Bay, which the dredging costs from the last cycle are the reason for the Treasury charge that has increased Tasmanian costs in the last 12 months.

The estimated future cost is the least \$600 million.

3. The Hastings option is a real one as it has dual standard gauge rail links to the port and onto the port thresholds.

There would be very little trucking of containers as the cheapest way would be simply to move by rail to the export port destination, either being port Melbourne, Botany, or Brisbane.

The domestic container traffic can also be rail directed as the cost of Rail freight from Hastings to the intermodal in Melbourne is about 50% less than the cost of a truck.

4. In relation to the development of Hastings and the costs, there are a number of key issues that have transpired in the past 12 months that make this a more than reasonable proposition for both State and Federal Liberal party to push.

Firstly Toll have given up rights to the port.

Secondly the wharf and swing basins are quite large and could easily accommodate the present spirit ships without any capital development.

The upgrading of the existing roll on roll off berths plus the onshore facilities for the TT line, being security fencing and buildings would be relatively inexpensive in gross terms.

In all probability the changes to the wharf and ground facilities would be less than \$60 million.

5. This leads to the other issue which is empty containers.

50% of the containers going out of Tasmania are empty. This needs to change. There is no discounting or even a remote sign of any competition to gain cargoes for these containers and hence it seems to me that pricing is simply the total costs of a single voyage and that the users are gouged.

Presently the major impediment to shipping pricing is the lack of competition as all of the existing capacity is full, and therefore why would any operator increase capacity or reduce price.

If the spirit ships are redirected on Hastings, the roll on roll off capacity increases by 30%, using the same capital equipment, which is the ships, which are presently owned.

At the same time it is highly likely that a major private sector operator would look to a flat deck container ship from Bell Bay to move containers much more efficiently and also press down on price in order to secure long-term volume.

Once this service was established it would be extremely difficult to compete against it.

6. There are at least 65 container ships between 15,000 and 50,000 t deadweight without cargoes and on the market worldwide.

7. The key position with the TFES is acknowledged, and you are well aware of simple changes that will make it much more effective for outbound exports from this island.

The development of the Port of Devonport should continue, and one key element would be the narrow gauge Tasmanian rail network it brought to the port via a bridge over the Mersey River, so that intermodal can happen at the port and reduce costs.

This is a low cost option that presses down on the costs of the TFES in strategic terms.

Therefore my view is that if you want the support of Infrastructure Australia, Tasmania will need a coherent development policy to increase efficiencies at a minimum capital spend by the Federal government for port changes, that will leverage the existing infrastructure to a higher level of capacity and thus push down on costs, whilst at the same time modifying the TFES to more adequately reflect the export nature of the Tasmanian economy.

The key driver will be rail, mandated for container traffic.

8. Summary of strategic Issues:

If the investment presently being made in the Tasmanian rail system together with better strategic use of ports, is not focussed on making the rail system logistically competent, then there will be no changes to the efficiency of freight in and out of Tasmania.

To continue to be truck dependent will see a slow and steady shutdown of the Tasmanian industry as it loses competitiveness and markets.

To continue to operate into Port Melbourne is a strategy without any real underlying reasoning supporting it. It will continue to constrain the Tasmanian economy and increase the cost of the TFES. In essence it is the TFES paying for the Victorian Government dredging costs of Port Phillip Bay.

To not transfer the government owned and profitable TT line roll on roll off passenger ferries, from Port Melbourne to Port Hastings, will condemn a no change situation with Bass strait freight and higher overall TFES costs to the Federal government, without any change to the efficiency or productivity of the Tasmanian freight system linking that economy to Australia and the world.

To not reduce the handling of freight containers by the use of rail intermodal's is to embed the freight inefficiencies and lack of productivity presently experienced. It will imbed high costs and generate no lift in productivity.

9. The future:

Clearly the productivity commission may arrive at similar conclusions for most of the terms of reference.

The future of Bass Strait freight is entirely focused on the fact that all goods that are in containers are essentially point-to-point logistical cycles.

In the case of Tasmania we have at least 4 to 6 container handling cycles per freight journey.

This has to cease, as the costs cannot be sustained, and the only way of removing those costs will be to use rail and intermodal port functions.

It would be possible for you also to consider that the TT line, being a government business enterprise owned by the Tasmanian government, will have to replace these ships within the next few years.

If the ships were constructed specifically, and they should be, they can be ordered with a rail deck as the base specification for the new ships, which would mean an extra vehicle deck.

This will allow an intermodal at Devonport from the narrow gauge Tasmanian system to the standard gauge system flat cars that could be pushed straight into the ship, and retrieved from the ship at Hastings and formed into a train for its next journey.

Conversely freight into Tasmania comes on flat cars being standard gauge (no handling) which are pushed onto the ship.

They are retrieved in Devonport and an intermodal transfer to narrow gauge rail flat cars occurs.

This removes four complete handling cycles from the price of the freight transfer.

Clear strategic gains exist for the Federal government to assist in the acquisition of these ships which would be only slightly larger, and will be certainly capable of utilisation of the Devonport harbour. They also provide the Department of Defence with 24knot high speed freight and troop carriers in a time of National need.

In conclusion, the views that I express are my own and are based on many years of working with large scale logistics and the movement of fuel and tonnages from one place to another with a degree of efficiency.

I look forward to reading your conclusions.

Mervin C Reed FAICD FChFP AAFA JP
Chartered Financial Adviser

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