

13th December 2013

Submission to the Tasmanian Shipping and Freight Review

Background

- The King Island beef business is the largest industry on King Island with 100,000 head of cattle and represents 22% of the Tasmanian beef production.
- The Searoad Mersey provides a reliable weekly shipping service for livestock in double deck trailers, plant and machinery and containerised general freight which includes fertiliser sailing from Melbourne to Grassy then onto Devonport. Occasionally there are reverse sailings from Grassy to Melbourne.
- LD Shipping provides a livestock freight service alongside the Searoad Mersey service which is necessary to keep livestock moving off King Island particularly during peak times. These livestock are transported on open decks. This ship currently sails from Grassy to Stanley.
- Prior to Sept 2012 the vast majority of cattle were slaughtered at the King Island Export Abattoir. Following closure of the abattoir all slaughter cattle now have to be shipped live from King Island to Tasmania and occasionally Victoria if a reverse sailing occurs with the Searoad Mersey.
- You would note that the freight task for King Island beef industry has altered from refrigerated containerised meat to live shipments being processed at JBS Longford under the King Island Beef brand or Greenhams Smithton.

Key Issues - The key issues are by no means singular and are made up of a combination of logistics, volume and inefficiencies in the supply chain. There are obvious examples of anticompetitive behaviour from service providers along that supply chain.

- Freight Costs –
 1. When comparing to other freight movements across Bass Strait for livestock and fertiliser movements, appear to be extremely excessive – Please refer to Appendixes I & II.
 2. Freight costs on fertiliser in containers are hindering the ability of farmers to improve their production with freight rates 3 to 4 times that of shipping from Melbourne to Tasmania and in excess of double that of shipping from Bridport to Lady Barron (Flinders Island) in one tonne Bulka Bags.
 3. Inefficiencies in bulk fuel transport and handling resulting in higher fuel costs –There is a large differential in the diesel price on King

Island versus the Victorian and Tasmanian regional price averages - in the order of 125%. The general differential between Terminal Gate Price vs. Regional Pricing is in the order of 4.5 - 12%, however on King Island it is in the order of 26% – Please refer to Appendix III

- Tasmanian Freight Equalisation Scheme –
 1. Since the TFES review in 1996 there have been no increases in the rebate yet actual freight costs have doubled in this time.
 2. As a result of the Productivity Commission Review in 2006 – ‘Productivity Commission Inquiry Report, No. 39 14 December 2006’ - an intrastate southbound component was introduced in 2007.
- In the light of freight rates mentioned above and the current TFES arrangements we believe that the TFES rebate should be increased substantially and the ACCC should investigate the current freight and handling charges -
 1. In 2007 TFES became applicable for southbound freight from King Island. Bass Strait Islands shippers, we believe increased their freight charges on this leg upon the introduction of this addition to TFES.
 2. The current sea freight system consists of a monopoly on fertiliser and general freight and a duopoly on livestock. Further disaggregation of the current freight task will add to the unavailability of the King Island freight task, however we believe we are being exploited under the current system. Please refer to Appendix I & II
 3. The main requirement for livestock trailers is outbound from King Island, which means trailers come in empty the majority of the time yet when bulls are brought in, excessive charges are being levied upon the producer, e.g. \$650 for 1 bull
 4. The inability to de-hire (empty returns) containers at Grassy Port creates extra logistics moves and increased freight costs from nil back loading opportunities.
 5. Container weights discrepancies - On outgoing containers of mineral sand the vendor is allowed to load to 29mt gross while inbound containers of fertiliser are capped at 25mt gross. Containers of fertiliser out loaded from the same dispatch point in the same containers sitting on the same ship that are going on to Tasmania are allowed to be loaded at 29mt while the ones being unloaded at King Island are capped at 25mt gross.

- Grassy Port -
 1. Security – For Grassy Port to comply with legislation relating to national security it increases the cost of doing business disproportionately to the amount of freight being shifted.
 2. Staffing – Grassy Port receives and dispatches the majority of its sea freight on a Sunday and also opens for land based movements on Monday, Wednesday and Friday. MUA mandated staffing levels are excessive for the volume of freight shifted.
 3. Port Amalgamation - Claimed savings from amalgamation of King Island Ports into TasPorts of \$400,000 - 500,000 per annum have not been demonstrated.

- Future shipping service and port limitations –
 1. We note that a King Island Shipping Service Project – November 2013, conducted by the Tasmanian Department of Infrastructure, Energy and Resources known as the GHD Report – Job No. 21/22341 is available for referencing
 2. Disaggregation of the King Island freight task puts at risk an efficient and reliable service due mainly to the volume of freight.
 3. There are limitations with the Grassy Port around ship length and depth of harbour with regard to a potential replacement ship.

- We would like to request a public hearing on King Island for the beef industry and other interested parties

Appendix I – These numbers were compiled as at March 2013

Livestock Freight Costs ex King and Flinders Islands and comparisons

Direct Costs ex King Island - shipped via SeaRoad Shipping

- Based on 42hd Yearling Cattle – per head	
- Page Transport Grassy to Smithton/Longford/Powranna (Includes Wharfage each end)	\$138.10
- TasPorts King Island farm to Grassy	\$ 14.50
- Less TFES (\$1710/42hd)	\$ 40.71
- Total cost delivered to consumer per head	\$ 111.89

Direct Costs ex King Island – shipped via LD Marine

- Based on 240hd Yearling Cattle – per head	
- TasPorts KI Farm to Grassy	\$ 14.50
- Grassy to Stanley	\$ 99.55
- TasPort charges – Grassy	\$ 12.45
- TasPort charges – Stanley	\$ 5.75
- Stockman and tie up fees	\$ 5.96
- Stanley – (to Smithton - \$12, to Powranna, Longford - \$27)	\$ 27.00
- Less TFES (per head)	\$ 30.54
- Total cost delivered to consumer per head	\$134.67

Direct Costs ex Flinders Island - shipped via Furneaux Freight

- Based on Yearling Cattle – per head	
- Flinders Island farm to Lady Barron	\$ 7.00
- Lady Barron to Bridport (inclusive of wharfage each end)	\$ 64.54
- Bridport to cons. (Av. to Powranna, Longford & Smithton)	\$ 23.33
- Less TFES (per head)	\$ 30.54
- Total cost delivered to consumer per head	\$ 64.33

Compare this with

Livestock Freight – per head (Net after TFES)

- Melb. to Burnie (includes pickup within 100km and delivery to destination)	\$ 61
- Melb. to D'port (includes pickup within 100km and delivery to destination)	\$ 78
- Flinders Island to Tasmanian processor/feedlot	\$ 64
- King Island to Tasmanian processor/feedlot	\$112

Appendix II – These numbers were compiled as at March 2013

Fertiliser Freight Costs onto King Island and comparisons

Fertiliser Freight, Melbourne Wharf to Grassy Wharf - shipped via Searoad

- To Grassy Wharf per box	\$ 3141
- Less TFES per box	\$ 513
- Total cost to Grassy Wharf	\$ 2628
- Total cost to Grassy Wharf per tonne (based on 23.5mt/box)	\$ 112

Compare this with

Fertiliser freight, wharf to wharf – per metric tonne (Net after TFES)

- Geelong to Burnie (24mt/box)	\$ 30
- Geelong to Devonport (24mt/box)	\$ 38
- Bridport to Lady Barron (1 tonne Bulka Bags)	\$ 48
- Melbourne to Grassy (23.5mt/box)	\$112

Appendix III

Fuel Prices on King Island and comparisons (Week ending 8/12/13)

Diesel Fuel price at the bowser on King Island - 203 c/litre

Compare this with

- Tasmanian Regional Average 166.0 c/litre
- Victorian Regional Average 158.9 c/litre
- Northern Territory Regional Average 176.4 c/litre

Diesel Bowser Prices - as at 11/12/13 versus Terminal Gate Prices

- Hobart TGP (155.8 c/litre) vs. Tas. Reg. Average 10.2 c/litre
- Melbourne TGP (151.8 c/litre) vs. Vic. Reg. Average 7.1 c/litre
- Darwin TGP (154.8 c/litre) vs. NT Reg. Average 21.6 c/litre
- Melbourne TGP (151.8 c/litre) vs. KI bowser price 51.2 c/litre

Sources and input - Michael Wickham - Tas Ports, Les Dick - LD Marine, Matthew Bayles - Furneaux Freight, Scott Anderson - Flinders Island farmer, Graeme Pretty - Greenhams, Boyd Hoare - JBS, Chris and Geoff Page – Pages Transport, Rob Hodge – Hodge Transport, Andrew Philbey – Wengfu Fertilisers, Brett McGlone – Incitec Pivot, KIBPG members, TFGA – King Island Branch, Robin Thompson – DPIPWE, King Island Motors, Australian Institute of Petroleum, R Clemons, J Berry