

13 December 2013

Peter Harris
Chairman
Productivity Commission
Tasmanian Shipping Inquiry
GPO Box 1428
CANBERRA CITY ACT 2601

Head Office

The Esplanade PO Box 168E
East Devonport Tasmania 7310
Tel 03 6421 7311 Fax 03 6427 0588

Melbourne Office

Station Pier PO Box 323
Port Melbourne Victoria 3207
Tel 03 9206 6211 Fax 03 9646 3867

Reservations

Tel 13 20 10 Fax 1800 636 110
spiritoftasmania.com.au
TT-Line Company Pty Ltd
ABN 39 061 996 174

Dear Mr Harris

TT-Line Company Pty Ltd (TT-Line) welcomes the decision of the Commonwealth Government to request the Productivity Commission (PC) to conduct an inquiry into Tasmanian shipping and freight.

Given the very limited time available to prepare a submission, TT-Line will initially use this opportunity to outline a range of issues, that in our view, the PC should consider as part of the inquiry.

TT-Line is concerned about the limited amount of time given to the PC to conduct this inquiry and how this could impact on the ability to provide meaningful recommendations to improve Tasmanian shipping and freight system. We question the lack of coordination with the Tasmanian Government regarding the release of the final report of the Freight Logistics Coordination Team (FLCT). It is our opinion that the final report of the FLCT, due in early December, could have been used to better inform submissions to the PC inquiry.

BACKGROUND

TT-Line has been operating passenger, vehicle and freight services on Bass Strait since 1985. TT-Line's current passenger, vehicle and freight ferries, *Spirit of Tasmania I* and *II* have been in operation between Station Pier, Port Melbourne and Devonport, Tasmania since September 2002.

Both vessels complete a daily service between these ports with double sailings undertaken during peak periods each year.

TT-Line is one of three freight operators on Bass Strait, alongside Toll Shipping and SeaRoad. TT-Line operates in a unique market niche based on the speed, reliability and schedule integrity of its service. It is the primary provider of trailerised freight on Bass Strait.

TT-Line is a Service Operator as defined in the Ministerial Directions for the Operations of the Bass Strait Passenger Vehicle Equalisation Scheme – Amended 11 June 2013.

TT-Line made a significant contribution to the Tasmanian economy by employing staff and purchasing goods and services to the value of approximately \$48 million in 2012/13, in addition to the \$260 million of tourism dollars injected into the Tasmanian economy.

PRODUCTIVITY COMMISSION INQUIRY

TT-Line has reviewed the terms of reference and timetable for the inquiry.

There are a number of issues that the PC should consider to improve Tasmanian shipping, the operations of the Tasmanian Freight Equalisation Scheme (TFES) and Bass Strait Passenger Vehicle Equalisation Scheme (BSPVES).

These issues if resolved could further improve the already positive economic impact that the TFES and BSPVES provide to the Tasmanian and National economies.

CAPACITY CONSTRAINTS

TT-Line's assessment is that Bass Strait shipping capacity has reached its practical limit.

Our data shows that the actual annualised average utilisation on TT-Line's vessels is 90% compared to the maximum capacity utilisation of 85% when logistics systems are commonly considered at capacity.

Market intelligence indicates that the other Bass Strait shipping providers are in a similar situation, particularly during peak periods.

This situation combined with the closure of the Brisbane dry-dock and the uncertainty surrounding the future of Sydney dry-dock facilities will lead to longer and more frequent capacity constraints on the Tasmanian economy.

Further, the current Bass Strait fleet is not well suited to meet demands of Tasmania's major growth industries such as agriculture and / or to support the Tasmania's significant investment in irrigation schemes. It should be noted that the majority of agricultural freight is carried on road trailers not containers and is time sensitive cargo.

TT-Line's view is that there is a need for replacement or additional capacity to be added because one third of the Bass Strait fleet is more than 20 years old and coming to the end of its working life.

The private sector has so far failed to invest in replacement tonnage leaving the State extremely vulnerable to prolonged access issues due to the time required to build/procure replacement vessels.

These factors put pressure on shipping rates and negatively impact Tasmania as a State and its businesses.

COST OF SHIPPING ACROSS BASS STRAIT

The cost of providing shipping services across Bass Strait and its impact on shipping rates needs be put into context particularly when shipping rates are compared with international liners rates.

The factors affecting the cost of shipping across Bass Strait as quoted by Aurecon in the "Tasmanian Shipping and Ports" report commissioned by FLCT are:

- Cabotage – Australian flagged and crewed vessels are considerably more expensive to operate than equivalent foreign flagged vessels. The largest component of TT-Line's vessel operating costs are crew wages;

- Bunker fuel prices are considerably higher in Australia than any of the major bunkering ports in Asia. The market for marine fuel in Australia has contracted to a point where there is only one fuel supplier in Melbourne; and
- Ro/Ro operations are labour intensive both on board and ashore. Due to the mix of cargo, Ro/Ro operations require dedicated port terminals as opposed to international liners operations where shipping lines used the same terminal for their vessel turn around. The cost of Ro/Ro operations is also impacted by the relatively small scale of operation and cargo volumes if compared with international liner operations.

The PC should consider as part of the inquiry the implications of shipping costs on independent freight forwarders and shipping companies, along with measures that could mitigate the impact that these cost factors have to the delivery of shipping services across Bass Strait.

TASMANIAN FREIGHT EQUALISATION SCHEME

The TFES has been in operation since 1976 and provides an essential mechanism to reduce the freight cost disadvantage to Tasmanian companies.

TT-Line supports the direction of the current Commonwealth Government to retain the scheme and sees the PC inquiry as an opportunity to improve its operations.

TT-Line would like to raise the following issues for consideration by the PC:

- Greater transparency and efficiency in the process for claiming the rebate.
- The structure of the rebate was developed at a time when the vast majority of cargo was transported in containers. The market has since shifted and continues to move towards trailers. Therefore the PC should consider if the structure of TFES adequately reflects the current and future trends in freight requirements.
- Application to export cargo. There is little evidence that a regular direct international shipping service from Tasmania would ever be viable due to insufficient volume. In this context the PC should consider the benefits of applying the TFES rebate to all Tasmanian outbound cargo including export cargo. In other words treat all outbound cargo as domestic and effectively eliminate the cost disadvantage for Tasmanian exporters.

BASS STRAIT PASSENGER VEHICLE EQUALISATION SCHEME

TT-Line would like to raise the following issues for consideration by the PC:

- Equality of application. The current rebate under BSPVES applies to motorhome and caravans but not trailers. The PC should consider including trailers in the coverage of the scheme.
- Optimisation of the scheme. The PC should consider ways to optimise the application and operations of the scheme. This could include increasing the level of rebate, full equalisation for vehicles, inclusion of passengers to the rebate scheme and alternative mechanisms to better calculate the rebate.
- Rebate indexation. The PC should consider an alternative method to index the rebate level other than CPI. This is because increases in maritime operating costs are significantly above CPI.

We would encourage the PC to give due attention and prominence to the issues we raise and look forward to receiving the Draft Discussion paper on the initial findings of this inquiry.

TT-Line will be providing a further submission in due course to address in detail issues that in our view the PC should consider as part of this inquiry.

We would also request a private meeting with the Commissioner(s) to discuss issues which are relevant to this inquiry.

Regards

~~Stuart McCall~~

ACTING CHIEF EXECUTIVE OFFICER