

12 December 2013

**TASMANIAN EXPORTERS GROUP
PRELIMINARY SUBMISSION
TASMANIAN SHIPPING AND FREIGHT
TO
AUSTRALIAN PRODUCTIVITY COMMISSION**

Introduction:

It was instructive to attend the preliminary INDUSTRY ROUNDTABLE discussions in Hobart on Tuesday 10 December 2013.

Whilst it was agreed that Tasmania needed a long term solution to its shipping and freight problems and that a long term view should be taken in respect of infrastructure needs for the state, the discussion centred on several key factors, including:

1. The need to undertake a comprehensive review of Bass Strait shipping costs between Tasmania and Melbourne for all exports
2. Inclusion of international freight in the TFES
3. Both these scenarios to be contemplated in respect of improving TFES arrangements to provide competitive equality for all Tasmanian exporters compared to their mainland counterparts.
4. Methodology for retaining TFES currency i.e. a benchmark mechanism to adjust the scheme for upward or downward shifts in costs.
5. The establishment of a viable direct international service from Tasmania to international destinations.
6. Intermodal expansion of the Bell Bay port
7. Change to cabotage rules to generate competition/contestability between domestic and non- Australian international carriers

TEG is strongly supportive of the review of the TFES. The primary objective should be to ensure that the scheme establishes a level playing field for Tasmanian domestic exporters. At the same time an appropriate Scheme adjustment mechanisms should be introduced to maintain currency.

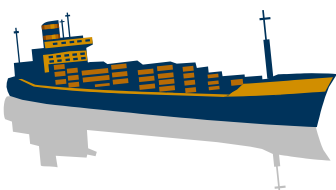
TEG is also of the strong view, that for international exports, a direct service is to be preferred as opposed to international freight transhipping from Melbourne.

A direct international service will provide competitive advantages.

Until the international service is established, international exporters should receive TFES assistance. service is established.

About the Tasmanian Exporters Group (formerly the BBIG)

The Bell Bay Industry Group (BBIG) was formed in 2006 and includes manufacturing businesses and service providers in the Bell Bay area which is Tasmania's largest industrial precinct.



The 2011 IMC link (now MMC link) report titled “Economic Contribution of the Bell Bay Industrial Estate to the Tasmanian Economy” details the combined direct, indirect and induced effects of the output of businesses in the Bell Bay estate across all Tasmanian industries as follows:

- \$6,544 million in the value of output across sectors
- 23,623 full-time or part time jobs
- \$1,261 million wages income paid to Tasmanians
- \$2,754.67 million income to state GSP which accounts for 12.53% of the total GSP impacts for Tasmania

When international shipping withdrew from Bell Bay in 2011, other organisations joined the BBIG including other exporters and Northern Tasmanian Development, a regional development entity covering Northern Tasmania. In recognition of this wider stakeholder involvement, the BBIG morphed into the Tasmanian Exporters Group (TEG).

The TEG has taken a lead role on behalf of its stakeholders to advocate for TFES reform and the commencement of a direct international container shipping service.

The position of TEG was informed by the findings and data supported evidence provided by the following documents:

1. the IMC Link Report titled: The Economic Contribution of the Bell Bay Industrial Estate to the Tasmanian Economy (IMC Report) and
2. the MMC Link Report titled: Containerised Freight Specialisation at the Port of Bell Bay: A Cost-Benefit Analysis (MMC Report). Copies of those reports are attached.
3. forecast by the Bureau of Infrastructure Transport and Regional Economics (BITRE) (Department of Infrastructure Transport and Local Government, Canberra) concerning the Intermodal expansion of Bell Bay port to meet projected Tasmanian container capacity requirements.

Direct International Shipping

Consequential to the withdrawal of international shipping in May 2011, \$14.5M allocated to international exporters to offset increased costs for the period May 2011 to June 2012. Actual cost was estimated at near \$40m for that period.

Following the cessation of international container shipping to and from Tasmania, the Australian Government made a one off offer to exporters of \$20m in March 2012 of which \$14.5 was made available to eligible Tasmanian exporters. This was to offset the extra costs incurred consequential to the loss of international container shipping.

These payments to eligible exporters are an unequivocal demonstration of extra costs incurred. Moreover, as freight costs have increased since March 2012, the disadvantages have magnified further.

It is to be noted that export businesses at Bell Bay have been disproportionately impacted. Aurecon (Part 1 FLCT Report page 7) summarise:

Exporters from Bell Bay face significantly higher costs following the cessation of direct shipping. Goods must be transported from Bell Bay to either Devonport or Burnie and empty containers must be relocated to Bell Bay. These steps add to complexity and cost. We estimate the additional cost to be \$1,000-\$1,300 more per TEU.

Size of Ships:

Suitable sized ships are available

The Deegan Report was that Tasmania “is all but shut out from the international market” and that channel depth (at Bell Bay)” goes some way to explaining why the international consortium ceased its Tasmanian operations in 2011”, he also goes on to say “with the increase in size of container ships, and Bell Bay channel depth, the loss of this service was all but certain” (all at Report page 2)

Those findings are not supported by facts or evidence.

The MMC Report, based on research and consultation with industry concludes that scheduling difficulties faced by the AAA shipping consortium together with the inability to pre secure a berth at the Port of Melbourne and the use of vessels of questionable seaworthiness led to the withdrawal of this service

Swire Shipping, the liner division of the China Navigation Company has a fleet of purpose built ships suitable for Tasmanian Ports.

Swire has demonstrated unwavering support to provide shipping solutions for Tasmania’s international exporters.

When in March 2013, Bell Bay Aluminium secured a Direct Multi-Purpose International shipping service BBA said:

“We see the commencement of our service with Swire Shipping as an important stepping stone to a long term sustainable service building on the work of the Tasmanian Exporters Group which has and is actively campaigning on behalf of the broader Tasmanian export community’

On an ongoing basis, Swire Shipping has continued to meet with many Tasmanian international exporters who are supportive of a container service.

Letters of Intent

There is industry support for a direct service.

This was confirmed to TEG by Letters of Intent from exporters which indicated, in the short term, between 13890 and 17150 containers (per annum) would be available to migrate to this service.

The Tasmanian Government was formally introduced to Swire Shipping in December 2012 with the objective of Swire developing shipping scenarios which would overcome the need to tranship via Melbourne.

Swire, an experienced regional shipper, advised after understanding Tasmania's requirements, that a suite of options were required to comprehensively address Tasmania's international shipping requirements.

Scenarios for discussion with the Tasmanian Government were put forward all of which were predicated on initial transitional funding for a period of three years

A joint detailed due diligence process was proposed to ensure all options to mitigate costs, such as outlined above, were considered. Those discussions are still to fully mature.

The Australian Productivity Commission is urged to inform itself as to the detail of those scenario options and TEG is willing to assist in that regard.

Shipping Management Model

This model would involve existing carriers and would maximise resources

A further and potentially far reaching initiative proposed by Swire Shipping is a Shipping Management Model working with existing carriers to maximise the use of services and resources.

This represents an opportunity to explore options on an 'open book' approach.

Transitional Funding

This is required funding for up to 3 years to underpin the operation of a direct export container shipping service for 3 years to enable the migration of volume to this service.

There is a clear cost burden of not having an international service making the resumption of international container linkages a vital imperative.

A transitional funding package must be established recognising that industry will take time to migrate volumes to a new shipping service.

Transitional funding would reduce as more export and crucially more import volume became available.

Fundamental to sustainability is a balanced export/import container volume and time will be needed to achieve this outcome; especially to proactively seek out import volumes.

Additional transitional cost mitigation initiatives could also include;

- calling at other Australian ports to generate additional revenue
- cartage of domestic freight (subject to voyage permits and or regulatory changes – see cabotage below)
- assistance to supply empty containers, which is presently a significant problem for Tasmania exporters

- TasPorts has indicated a preparedness to assist with initial favourable start up terms for port charges and associated costs.

The absence of a direct container service is detrimental to existing business and a fundamental detraction for investors and entrepreneurs looking to establish export business ventures in Tasmania.

Cabotage

A change to current Navigation Act requirements for foreign ships is essential

The new Federal Government has indicated they plan to look to remove some of these restrictions.

The previous federal Government changed Coastal Legislation [Navigation Act] to change the ability of internationally crewed /registered vessels to:

- make licensing to carry coastal cargo more restrictive
- impose on those internationally crewed vessels carrying Australian Coastal cargo to pay the crews Australian Crew wages. {Fair Work Act]

Despite some strong arguments, the evidence points to fact that the more restrictive and expensive conditions has seen coastal volumes reduce and indeed some cargo previously supplied domestically now supplied externally.

The Tasmanian impact currently is that the incumbent services plying the Bass Strait are all Australian Registered and crewed vessels with the costs to match.

This feeds into the Bass Strait rates.

In the event the current rules are not repealed, measures should be introduced which will enable special consideration to be given to assist Tasmanian costs and competitiveness. This would be by amendment to the current applicable provisions of the Navigation Act

More broadly, if the applicable laws were eased and the need to pay crews Australian wage rates was removed, there would be more incentive for international ships to call in Tasmania and to carry coastal cargo to other Australian ports en route to international destinations.

This would also serve to mitigate transitional funding costs for any new direct international container service.

Bell Bay – Export/Import Container Facility

Every day the port of Bell Bay is dormant comes at a cost to the Tasmanian community

The Bureau of Infrastructure Transport and Regional Economics (BITRE) based modelling and historical data indicate Tasmania will be beyond capacity for container handling by 2025

TEG continues to support the phased expansion of the Port of Bell Bay as a priority infrastructure project. Until recently, this project was also supported by the Tasmanian Government. At the August 2011 Regional Ports Conference it was stated:

“...of all the Tasmanian ports, only Bell Bay has scope for substantial growth.

“Over the medium to long term we believe the Bell Bay project is critical to Tasmania as no other port is capable of significant expansion to cope with the growth in freight task”

Container port movements would exceed capacity during the next twenty years and that our (Tasmania’s) economy is heavily reliant on connections to interstate and international markets and 99% of our freight task is moved by sea”

The Conference was told that the Ports of Bell Bay, Burnie and Devonport had been ear marked for different roles: Bell Bay as a container port; Burnie as a major bulk commodity port with additional ro-ro capacity; Devonport as a multi user port with focus on passenger services. TasPorts also advocated this approach to the Legislative Council in 2011.

However the Deegan Report (2012) cast doubt on the proposed intermodal expansion. In the circumstances, the independent MMC Report was commissioned by TEG and Northern Tasmanian Development to examine the costs and benefits of container specialisation at Bell Bay. Extensive consultation was undertaken with 30 relevant stakeholders including:

- i. Shipping Operators
- ii. Importers
- iii. Exporters
- iv. Industry Groups
- v. Others

Key Report Findings were:

- market forces and lack of access to capital have conspired to frustrate the realisation of this vision (Bell Bay Expansion)
- Public funds are being diverted to Burnie’s container operations to crisis manage the commercial operators explosive growth
- It is recognised that competing interests in the community have a number of divergent views on whether the Port of Bell Bay should remain the preferred destination for general containerised cargo but that this conundrum should be considered exclusively from the *perspective of the welfare of all Tasmanians*
- Ultimately every day the Port of Bell Bay lies dormant comes at substantial economic cost to the community (Report Executive Summary at page ii)

One of the key considerations in developing the cost benefit analysis was the need to examine current and future capacity constraints. From the Report (and based on *container demand growth of*

3.5% per annum), a lack of further investment in port capacity will severely limit Tasmania's economic growth. MMC concluded:

Using TRIOM and estimating the demand impact of exports on the Tasmanian economy, it can be seen that there is substantial potential impact of a restriction on Tasmania, including by 2034, over 10,000 jobs and \$1 billion in lost GSP

The evidence is that the intermodal expansion at Bell Bay is essential to Tasmania's future economic growth and prosperity. In particular, there is a need to utilise existing capacity in the short term to avoid constraints.

Growth Forecasts

Based on a business as usual approach, that growth in container freight has increased at an average of 5.3% per annum over the last 11 years (TasPorts 2011)

In considering container volume growth, the MMC Report parameters are based on a low and high container growth scenario of 2% and 5.3% respectively, over the long run. The MMC Report adopted a 3.5 per cent per annum container growth rate which translates to 750,000 TEU's of containerised freight by 2025.

BITRE (2010) historical data relevant to Tasmania reveals an average growth rate of 3.4% in container freight. Applying this forecast to the Tasmania container freight task the forecast is 800,000 container movements by 2025 (Tasmanian Government 2008).

Taking account of those projections there is a compelling case to proceed with the intermodal expansion of Bell Bay. It is therefore imperative for the Tasmanian Government to urgently engage with the Australian Government to provide infrastructure support funding for this work to commence.

The MMC Report summarised that:

...every day the Port of Bell Bay lies dormant comes at... economic costs to the community.

Expansion at some point in the future somewhere in the northern port system is required to avoid constraining overall container movements and state-wide economic growth, and the dormant land and infrastructure at Bell Bay is the most efficient, effective and strategically sustainable solution available;

And

In the absence of a viable alternative such as Bell Bay, the government is committed to maintaining the congested and decaying container infrastructure at the Ports of Burnie and Devonport, effectively relieving the commercial operators of any incentive in this regard.

This is based on credible analysis for infrastructure development at Bell Bay. It is about responsibly looking forward to meet Tasmania's port infrastructure needs as demonstrated by the cost benefit data which underpins the analysis provided.

The 2011 cost of \$150million (not adjusted since then) for the intermodal expansion is not overly significant when phased over 3 years, as was initially proposed to Infrastructure Australia.

Not only will the intermodal expansion cater for future requirements, it would also be a much needed stimulus to the regional economy of Northern Tasmania for a project which is clearly in Tasmania's overall interests.

It is also to be noted that container lifting equipment and other relevant port equipment is already in situ at the port.

Investment Timing: Market Led Decision

It has often been stated that the market has decided to move from Bell Bay to Burnie.

At page 21 of the MMC Report - the Minister for Infrastructure is quoted as follows:

"the customers and (Port of Burnie operators) Toll Holdings" have made a decision that freight will not go through Bell Bay in the short term (Legislative Council 2011)".

However the MMC Report concludes that:

'to suggest that customers have had any say in this decision, however is highly contestable. Indeed, it is the exclusive actions of the commercial operators that have led to the current situation whereby the Ports of Devonport and Burnie are the state's last two container ports left standing.

After all, scheduling difficulties faced by the AAA shipping consortium led to the loss of the Bell Bay's international service. A profit seeking series of commercial decisions led to the joint venture between Toll and ANL at the Port of Burnie. And commercial practices by Agility, including the inability to presecure a berth at the Port of Melbourne and the use of vessels of questionable seaworthiness led to the failure of the last remaining service out of Bell Bay"

Scheduling difficulties faced by the AAA shipping consortium led to the loss of the Bell Bay's international service. A series of commercial decisions based on self-interest led to the joint venture between Toll and ANL at the Port of Burnie at a cost to the Tasmanian community. Commercial practices by Agility, including the inability to secure a berth at the Port of Melbourne and the use of vessels of questionable seaworthiness led to the failure of the last remaining service out of Bell Bay.

The 'market' did not have a clear preference for Burnie port. Producers had no option other than to assign their containers to Toll/ANL. These commercial decisions have stifled competition. As a result there have been successive increases in the cost of containerised freight from Burnie to Melbourne prompting some exporters to question why it is that they retain value adding operations in

Tasmania. Instead they could value add interstate and by doing so attract a freight subsidy for the goods they send via Burnie to Melbourne.

The MMC Report at page 22 discusses Bell Bay as a container port as follows:

...the State government continues to express support for the Port of Bell Bay as the main container hub for Tasmania. Yet the Minister states he is relying on the "market" to indicate when the "tipping point" will be that shifts containerisation from Burnie to Bell Bay. His definition of the tipping point is when freight companies say "we are a bit constrained here". He argues that if Bell Bay investment started now, it would not be the best investment for Tasmania (Legislative Council 2011)

Other relevant findings in the Report at page 22 are that:

- It could be argued that the Tasmanian government policy approach is to place the "mercantile interests of a duopoly ...over the net commercial welfare of all of Tasmania's producers
- The CEO TasPorts stated to the Legislative Committee in 2011 that the current development plan for Port of Burnie will extend its life by 5 to 10 years and that it is relying on Toll to make Investments in terminal efficiencies which will maybe extend the life of the Port to 10to 15 years
- This suggests that the tipping point is already upon us but there is no incentive for the current operators to make any significant investment in terminal facilities...because every day that Bell Bay lies dormant there is an implicit guarantee that their capital needs will be met by top up Government funding.
- An example of this is the \$4m provided from the one off \$20m to assist Tasmanian exporters

For the reasons outlined, the TEG and NTD continue to advocate for the intermodal expansion of Bell Bay.

Tasmanian Freight Equalisation Scheme:

TEG acknowledges that the TFES is not under threat and supports the current review by the Commission

Until a direct shipping service for international exporters is established, they should have access to TFES support.

Presently it makes no economic sense for international exporters to value add in Tasmania because a finished product exported internationally attracts no freight subsidy.

However goods sent from Tasmania to Melbourne for value adding there, en route to international markets, attract a subsidy of \$855 per container

This anomaly must be rectified.

By not value adding in Tasmania, the penalty to the Tasmanian economy includes:

- Loss of employment

- Loss capital investment
- Loss of rates insurance land tax water charges
- Loss of contribution to Tasmania's GSP

A further point relates to the inclusion of international export containers in the TFES.

In the opinion of the TEG to include those containers in the scheme could not be justified because the recurrent cost to the scheme, based on 40,000 container pa would be (40,000 x \$855 TFES) \$34,200,000 pa.

A much more cost effective and long term beneficial solution is to establish a direct international export container shipping service supported by transitional funding as discussed earlier.

In the interim, international exporters should have immediate access to TFES support.

Administratively the TFES is involved and simplification and transparency should be a feature of any revision(s)

Involvement in Port Planning With Victoria and Port License Fee

Twenty eight percent (28%) demand contribution to Port of Melbourne should afford Tasmania the opportunity to have a say in port arrangements.

This is especially the case in respect of the port license fee imposed by the PoM which saw container costs increased from \$40 per container to in excess of \$60 per container. The estimated additional cost to Tasmanian exporters is estimated in excess of \$13mpa

There is an urgent need for State to State negotiations with the intervention of the Federal Government

Recommendations and Actions:

Teg would welcome further discussion with the Commission in respect of the following:

- Support for Infrastructure Australia funding for the intermodal expansion of the Port of Bell Bay
- Securing the return of direct international container shipping from Bell Bay.
- Immediately engaging with potential international shippers capable of delivering this service
- Australian Productivity Commission to be briefed by Swire Shipping on scenarios suitable for Tasmania. This to be done on a without prejudice basis and in the context of Swire assisting the Review
- Swire has proposed an Export Shipping Management Model and a full briefing on this particular aspect is also recommended

- Support for transitional funding on an ‘open book basis’ for a period of 3 years to facilitate the migration of international freight to this service and to achieve balanced export/import volumes in order to achieve sustainability.
- Taking account of BITRE historical container growth data
- Recognising the implications and impact on port capacity of container growth outstripping economic growth as discussed in MMC Report
- Developing a port specialisation strategy as per the MMC Report. This was that some specialisation is necessary to achieve efficiencies as per the hitherto stated objective of Bell Bay becoming the major container port and Burnie the major bulk commodity port
- Continuation of financial support for international exporters until a direct international shipping service is restored

The TEG has consulted on this submission and it is reflective of that process.

TEG looks forward to its engagement with the further processes to be undertaken by the Australian Productivity Commission

RK Gozzi
Chair
TASMANIAN EXPORTERS GROUP