

13 December 2013

Productivity Commission
GPO Box 1428
Canberra City 8003
AUSTRALIA

Dear Sir/Madam,

Tasmanian Shipping and Freight Public Inquiry

Thank you for the opportunity to make a submission to the Tasmanian Shipping and Freight Public Inquiry. Australia Pacific Airports Cooperation (APAC) in conjunction with Launceston City Council are the operators of Launceston Airport. Launceston Airport sees firsthand the role that shipping and freight plays in stimulating the Tasmanian economy.

Launceston Airport is Tasmania's second largest airport, and facilitates the safe and efficient movement of over 1.2 million passengers per year. Since privatization in 1998, the airport has invested heavily in improvements to airport infrastructure, including a \$20m terminal redevelopment, which was completed in 2010. The airport also plays an important role supporting the Northern Tasmanian economy and directly supports the employment of hundreds of staff in addition to playing a vital role in delivering access for visitors to the state and assisting in growing tourism in the region.

For the Tasmanian freight industry to remain competitive, all modes of freight transportation must be fairly supported to ensure there is equitable access and pricing together with effective competition which in turn will increase productivity within the State.

When compared to air freight, sea freight represents an inherently lower cost mode of transport. The cost of shipping to and from Tasmania is further reduced by substantial Commonwealth financial and regulatory assistance. The price competitive position of sea-freight has been artificially distorted by the operation of the Tasmania Freight Equalisation Scheme.

In particular, and as a result of the freight equalisation scheme, Tasmanian freighters transporting goods destined for international markets through mainland airports are at a significant competitive disadvantage to mainland based exporters with direct international air services from their airports. This places an additional cost on air-freighting products from Tasmania and is potentially capping growth of high value, time sensitive food products such as truffles, salmon, abalone, dairy products - such products are high-end niche products originating in Tasmania is a distinct market around the globe. Establishment of a more equitable/economically efficient mechanism for the allocation of subsidies should take into consider growth of industries in the north and centre of Tasmania and for products for which air freight is appropriate.



With the existing Tasmanian freight and passenger schemes, current air freight capacity is not being fully utilised. The recent significant growth in low cost carrier frequencies operating to Launceston, stimulated by competitive passenger pricing, delivers aircraft belly hold capacity which is not being fully utilised. This, in part due to the artificial pricing advantage afforded to sea freight.

Launceston Airport and freight operators have made significant investment to support freight transport infrastructure. For example in the last 3 years, Launceston Airport has invested around \$7.5m in freight supporting infrastructure at the airport. This includes the redevelopment of a dedicated freight processing and handling facility for Australian Air Express (now Qantas Freight). Additionally, Launceston Airport completed a substantial project to upgrade the airport's southern apron facility which assists freight operations, enabling larger and more frequent aircraft utilisation of airport facilities. With limited uptake of air-freight, because of the cost disadvantage competing against subsidised sea-freight, it is questionable if this investment is resulting in the productivity returns that might be expected in an open market situation.

This current model is also resulting in potential business opportunities not being fully realised. For example, there is an opportunity for Launceston to develop as an intermodal freight hub through better utilization of the Translink Logistics Precinct (storage and distribution centres); the nearby Western Junction rail line just metres from the airport boundary; the significant on-airport freight infrastructure; and close road connections to all areas of the state. Creating an truly intermodal hub would deliver savings to Northern Tasmanian businesses and consumers and delivery more sustainable economic returns to the State. Given the in-ability for air-freight to fairly compete against sea-freight with the Tasmania Freight Equalisation Scheme and the Tasmania Wheat Freight Scheme however, these significant infrastructure investments are languishing. Again, this demonstrates that artificial barriers are preventing private investors from investing and stimulating the Tasmanian economy.

It is critical that airfreight is accessible and there are no additional barriers to using this important mode of transportation. The air freight sector provides suppliers the opportunity of breaking into those markets by getting those products to the destination. Tasmanian food products in particular have been a success story. For example, the Bruny Island Cheese Company in order to break into new markets, improve their profile and establish the business, used airfreight to get their product to mainland shelves and restaurants. At first they were air-freighting only a few 5kg boxes, but their reputation has grown, a cheese club has been established and shipments now are in the order of 1500 cartons being distributed all over Australia. Airfreight can provide the initial inroads to break in to and establish new markets for niche Tasmanian products, until later in their growth cycle, when volumes will dictate that sea freight will come into its own again. Consequentially, much needed stimulation of Tasmanian economy is being led by the airfreight sector.

Airfreight plays an important role transporting goods, particularly time sensitive and perishable produce, to international markets. The airfreight sector, with its greater network access and frequency delivers much greater responsiveness and if Tasmania is to exploit such markets, businesses should not be disadvantaged through inequitable cost structures.



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The cost of airfreight, in comparison to subsidised sea freight, is also impacting on the communities of King and Flinders Island. These communities have a high reliance on air connections which are vital to the livelihood of these regions.

Increasing frequency of air services, through unrestrained markets will improve access and stimulate the Tasmanian economy. Frequency of regular passenger transport services has delivered improved connectivity to a wide range of destinations both in Australia and abroad. This will provide increased opportunity to penetrate out of state markets, in turn stimulating the local economy. This however can only be done, if airfreight is affordable, in the same way passenger costs have become.

Additionally, the subsidies offered on passenger vehicles transported across by sea across Bass Strait have created inequity in the market. The broad intention of this subsidy is to account for the lack of a highway system between Tasmania and mainland Australia. There should be no difference in dealing with passengers who are required to drive to the airport, park, fly and hire a car, compared to people who travel via the sea (with their own vehicle) and receive a subsidy to do so. A highway should provide for regular, frequent ability to cross, which air services enable.

To address the issues above and to stimulate the Tasmania economy APAC makes the following recommendations:

- Any freight subsidy is applied to airfreight, as well as shipping;
- Connections between Flinders and King Island be enhanced;
- Private companies encouraged to invest in freight supporting infrastructure;
- Extend the passenger equalisation subsidy on passenger vehicles to air passengers.

Greater competition in Tasmania's freight industry has the ability to drive investment and productivity within the sector and enhance the State's economic performance. I would therefore encourage you to consider the issues raised above. Should you require any additional information, please do not hesitate to contact me and I would be happy to discuss these matters with you in further detail.

Yours sincerely

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