

Productivity Commission Inquiry into Tasmania's Shipping Costs and Competitiveness of Tasmania's Freight Industry



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1 EXECUTIVE SUMMARY

- 1.1 SeaRoad and its predecessor businesses have been servicing Tasmania's shipping requirements since the 1890s.
- 1.2 Shipping has been and remains the primary mode of freight transport between the Australian mainland and Tasmania.
- 1.3 Significant investment in vessels and related infrastructure is required to operate a daily service including dedicated shipping terminals and long term port leases.
- 1.4 SeaRoad's Bass Strait shipping service to Tasmania, including King Island, supports the primary freight link between Tasmania and the mainland. There are no other viable mainstream freight alternatives for Tasmania.
- 1.5 Comparisons elsewhere in the world to Bass Strait shipping environment and services are problematic due to a number of factors including distance, delivery expectations and cargo type.
- 1.6 Bass Strait shipping services do not receive any direct government support. Existing equalisation schemes benefit shippers of eligible freight and vehicles, not the shipping companies.
- 1.7 SeaRoad's investment in its ship replacement program will be impacted should there be any significant change in subsidy levels that adversely impact on the Tasmanian economy or place at risk the benefits provided by the 2012 Shipping Reform.
- 1.8 Strong competition exists between the three Bass Strait shipping companies. It also exists between the freight transport providers who use Bass Strait shipping services.
- 1.9 In recent times increasing pressure on costs has originated from external sources, which have impacted on customer pricing.
- 1.10 SeaRoad supports the concept of an equalisation scheme or program of change to augment freight and passenger services to and from Tasmania.
- 1.11 There are significant capital, operational and infrastructure differences between Bass Strait shipping services and international shipping services.

2 INTRODUCTION

- 2.1 The SeaRoad Group (SeaRoad) is a privately owned, Australian shipping, road transport and logistics service provider employing approximately 450 staff working in 10 locations across Tasmania and Victoria and on two vessels in Bass Strait.
- 2.2 SeaRoad and its predecessor businesses have been servicing Tasmania's shipping requirements since the 1890s.
- 2.3 SeaRoad was established in 2007 following the Australian Competition and Consumer Commission (ACCC) mandating that Toll Holdings Limited divest the Bass Strait operations of Patrick Corporation Limited.
- 2.4 SeaRoad's operations encompass the following:
 - 2.4.1 Dedicated cargo shipping service between Tasmania and Victoria
 - 2.4.2 Ownership, management and operation of two purpose-built roll on/roll off (RoRo) vessels, designed for the notoriously rough Bass Strait conditions
 - 2.4.3 End-to-end freight and logistics services including road transport with Australia-wide reach for cargo crossing Bass Strait
 - 2.4.4 10 key facilities across Victoria and Tasmania, specifically shipping terminals and freight distribution centres
 - 2.4.5 Infrastructure including Bass Strait shipping vessels, road transport fleet, cargo handling equipment, terminals, containers and depot/warehousing facilities
- 2.5 SeaRoad has a substantial investment in the interests of Tasmanian shipping. As a major industry player, SeaRoad has the credentials to provide relevant comment to the Productivity Commission's inquiry due to its extensive experience in managing and operating shipping across Bass Strait, road transport and logistics operations within Tasmania and throughout Australia.

3 BASS STRAIT FEATURES

- 3.1 Shipping on the "Bass Strait Highway" is the primary freight link between Tasmania and the mainland; there are no other mainstream freight alternatives for Tasmania.
- 3.2 Shipping operations are by their very nature highly capital intensive.
- 3.3 Significant investment in vessels and related infrastructure is required to operate a daily service requiring dedicated berth and terminal space.
- 3.4 Purpose-built vessels are critical to effective operations. They need to be compatible with a range of cargo types as well as available loading facilities and conditions.
- 3.5 It also needs to be recognised that the only other possible mode of moving freight to and from Tasmania is by air. It is acknowledged that it costs significantly more to move general freight across Bass Strait by air than by sea. Consequently only 1 or 2% of freight is moved by air.

- 3.6 Bass Strait shipping services cannot be readily compared with island freight transfers elsewhere in the world. This is due to a combination of distance, freight types, infrastructure and the availability of alternative transport modes. A better comparison might be to compare the cost of the shipping service against the capital cost and ongoing maintenance of a bridge or tunnel between the same land masses.
- 3.7 Bass Strait shipping providers do not receive any direct government support unlike national road and rail links.
- 3.8 Long term port leases are essential to secure facilities relevant to the capital investment in ships and associated infrastructure.
- 3.9 Port of Melbourne redevelopment projects have recognised the significance of Bass Strait shipping.
- 3.10 Providing daily services mandates dedicated shipping terminal facilities.
- 3.11 The Tasmanian Freight Equalisation Scheme (TFES) is federally-funded and supports freight volumes on Bass Strait by compensating various producers and manufacturers shipping goods between Tasmania and the mainland. There has been recognition by successive federal governments that Bass Strait shipping services are an extension of the national transport grid.

4 SEAROAD'S BASS STRAIT SHIPPING SERVICE

- 4.1 SeaRoad is inextricably connected to the prosperity of the Tasmanian economy as it provides a vital link in the supply chain between Tasmania and the mainland.
- 4.2 SeaRoad provides a reliable overnight Bass Strait service that is dedicated to moving freight between Devonport in northern Tasmania and Melbourne.
- 4.3 The Group operates two RoRo vessels that were designed specifically for operating in Bass Strait.
- 4.4 Sailings are from both Devonport and Melbourne each evening, Monday to Saturday with vessels arriving in port the next morning.
- 4.5 SeaRoad is the major freight shipping provider to King Island with a weekly service.
- 4.6 SeaRoad's customers range from large Australian companies and overseas shipping lines that use the Port of Melbourne as a gateway to and from Tasmania for imports and exports, to regional producers and small family owned businesses that rely on the Bass Strait trade for their living.

5 SEAROAD'S SHIP REPLACEMENT PROGRAM

- 5.1 SeaRoad's two cargo ships are Australian flagged and Australian crewed and have been servicing the Bass Strait market since 1991.
- 5.2 SeaRoad is committed to growth in partnership with the Tasmanian economy. SeaRoad's planned investment in new vessels will expand freight capacity in the Bass Strait market. This investment is for the long term and is predicated on market growth in both Victoria and Tasmania.
- 5.3 In concert with the 2012 Shipping Reform SeaRoad has significantly advanced its ship replacement program to re-invest in its fleet increasing freight capacity across Bass Strait.
- 5.4 The new vessels will be more efficient and economical than the existing ships dedicated to the Bass Strait trade. These new ships will be powered by clean energy - LNG. This commitment involves an investment of approximately \$200 million to replace both vessels and associated infrastructure.
- 5.5 The tax incentives provided under the Shipping Reform package will be extremely beneficial to SeaRoad in finalising its investment.

6 INQUIRY

- 6.1 SeaRoad supports the Australian Shipowners Association (ASA) submission to the Productivity Commission.
- 6.2 In addition to the views expressed by ASA, SeaRoad would like to make specific comment about Tasmania's shipping costs and competitiveness of Tasmania's freight industry.
 - 6.2.1 Market
 - 6.2.1.1 Bass Strait freight growth rates peaked in the late 1990s and early 2000s. In more recent times growth has slowed.
 - 6.2.1.2 Freight volumes over the last few years have remained constant with any growth primarily coming from freight that was previously carried by direct international ship calls into Tasmania.
 - 6.2.1.3 There are currently three dedicated shipping operators across Bass Strait: SeaRoad, Toll Holdings Limited (public listed company) and TT-Line Pty Ltd (Tasmanian State Government Business Enterprise). All three are Australian owned companies operating from dedicated terminal facilities in Tasmania and Victoria. All are long term operators in this market.
 - 6.2.1.4 SeaRoad and its competitors all actively compete for volume on both price and service offerings. There is strong competition for freight amongst Bass Strait freight forwarders and also Tasmanian road transport service providers.
 - 6.2.1.5 In general, each parcel of freight is priced on its own. There is a wide range of rates covering different commodities, volumes and service requirements.

6.2.2 External factors impacting cost of Bass Strait shipping

- 6.2.2.1 Port Licence Fee – this Victorian State government levy charged on all Melbourne port users since July 2012 has no relationship to productivity, costs or inputs relating to shipping or transport services
- 6.2.2.2 Quarantine levy – charged on all inter-state imports to Tasmania on a per freight unit basis
- 6.2.2.3 Carbon tax – a reduction of fuel tax credits since July 2012 has increased the price of bunker fuel with the flow through being an increase in fuel surcharge passed on to customers
- 6.2.2.4 Port authority services – an increased emphasis on facilitating trade rather than generating revenue through increased charges is required
- 6.2.2.5 Port redevelopment and improvement costs – will flow through to shipping operators and will place further pressures on pricing

6.2.3 Support for freight and passenger services

- 6.2.3.1 It should be accepted that the State of Tasmania faces inequities being an island.
- 6.2.3.2 Assistance is warranted in ensuring that the costs of moving freight and passengers across Bass Strait are not unduly onerous due to Tasmania's physical separation from the mainland.
- 6.2.3.3 The Tasmanian Freight Equalisation Scheme was designed to normalise the cost of moving goods across Bass Strait for selected businesses.
- 6.2.3.4 The real cost of moving freight across Bass Strait must take into account any subsidy, discount or freight equalisation component available to recipients.
- 6.2.3.5 SeaRoad supports the concept of an equalisation scheme or program of change to augment freight and passenger services to and from Tasmania.
- 6.2.3.6 In this regard it is appropriate that any assistance:
 - 6.2.3.6.1 Is available to the broadest range of eligible participants and goods to further enhance Tasmania's economic future.
 - 6.2.3.6.2 Is provided directly to the businesses that produce the goods rather than anyone else in the transport chain.
 - 6.2.3.6.3 Recognises that on the Bass Strait route, there is no government funding spent on road, rail, bridges, tunnels or vessels.

6.2.4 King Island

- 6.2.4.1 King Island has the same physical characteristics as Tasmania in terms of limited options for accessibility and freight movements in and out of the island.
- 6.2.4.2 SeaRoad has for many years provided the main freight shipping service to King Island. This is provided purely on a commercial basis with neither government subsidy nor assistance.
- 6.2.4.3 SeaRoad is currently able to integrate the King Island call into its mainstream Bass Strait service without the need to recover cost that would normally be applied for a stand-alone service.
- 6.2.4.4 SeaRoad and its predecessors have maintained the rate structure inherited from the previous service provider (Transport Tasmania, a Tasmanian State Government Business Enterprise) since taking on this service in 1991.

6.2.5 Bass Strait shipping services compared to international shipping services

- 6.2.5.1 Some key differences between Bass Strait shipping services and international services should be noted:

Bass Strait shipping	International shipping
Specialised RoRo vessels	General Lift on Lift off (LoLo) vessels
Domestic short sea voyage	Long duration voyages
Overnight service	Normally one week plus
Dedicated ports	Multiple ports worldwide
Multiple cargo types eg livestock, trailers etc	Homogenous containerised cargo
Large amount of time sensitive cargo	Not time sensitive
High level of palletisation	Low to medium level of palletisation
Fast turnaround of cargo and equipment	Slow turnaround of cargo and equipment
Domestic & international containers	International containers only
High vessel wear and tear	Lower vessel wear and tear
Higher equipment redundancy	Lower equipment redundancy
Dedicated terminals	Common user terminals
Long term service providers	Short term providers depending on profitability/sustainability