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Tasmanian Freight Inquiry

Productivity Commission

GPO Box 1428

Canberra ACT 2601

Dear Sir/Madam,

**Re: Submission by BCCI**

We write to thank you for the opportunity to put in a submission and the extension of time to prepare our submission.

We note that it has been approved by the Executive of the BCCI but that some small items may not be entirely supported by all individual members who may have their own agenda.

King Regards

Dr Peter Holm

President

Philip McCulloch

Secretary.



# Burnie Chamber of Commerce and Industry

## Productivity Commission of Enquiry Submission:

## Tasmania's shipping costs and freight industry

December 2013

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# Burnie Chamber of Commerce and Industry Submission to the Productivity Commission of Enquiry into Tasmania's shipping costs and freight industry.

## Introduction

The Burnie Chamber of Commerce and Industry is an affiliate of the T.C.C.I. and is dedicated to the progress of commercial, industrial, professional, educational and cultural activities in the City of Burnie and surrounding areas. The Chamber is a non-political organisation and welcomes the opportunity to respond to the call for submissions from the Productivity Commission to its Enquiry into Tasmanian freight costs and the freight industry.

In putting together our submission and considering the Terms of Reference, we feel it is important to briefly consider the basic facts of the history, geography and economy of Tasmania, its past infra-structure and its future needs for the next 50 years.

## Geography

- The Tasmanian archipelago consists of some 344 islands stretching from the middle of Bass Strait in the north, to Macquarie Island in the south. King and Flinders Islands in Bass Strait have a population of approximately 1560 and 850 respectively, and together with Bruny Island, population 550, in the D'Entrecasteau Channel in the south, are the only islands with significant populations, except for the main island of Tasmania with a population slightly greater than 500,000.
- Both the Bass Strait Islands are serviced by air and also have sea freight services for the transport of heavy goods and livestock. Bruny Island has a frequent 15 minute ferry service between the Island and the town of Kettering, south of Hobart.
- Being situated south of the Australian mainland, most Tasmanian trade is with the mainland and especially Melbourne. The economy is very diverse and the island's location far distant from export markets.

## History

- With little or no terrestrial infra-structure coastal shipping provided essential freight and transport services in the early days with many small ports located in rivers and inlets. (The coast abounds with places including the word "Port"). Most have disappeared or are now havens for fishing vessels and pleasure craft. However, it was as if everyone had to have a port, today it is a hospital, swimming pool or airport!!
- World- wide there has been a trend in the past 100 years for ships to get larger, safer and less expensive to operate. This has coincided with the closure of most river ports in the past 50 years, eg. London and Liverpool in the UK , and many around the Australian coastline including Launceston. These closures were initially countered by



building new facilities closer to the coast, eg. Tilbury, Avonmouth and Bell Bay. However with ever increasing ship size, problems associated with long pilotage, tidal / shallow water, fogs, reefs alongside navigation channels, the development of major shipping hubs, and also the development of good land based infra-structure to service larger deep water coastal ports, these river ports are also rapidly disappearing or have restricted use.

## Basic economics

In preparing this submission the Chamber has been guided by the knowledge and experience of members, and in particular by the recent report of The Tasmanian Freight Logistics Committee for whose assistance we are grateful.

- Ships are large and expensive vehicles to operate and only earn significant profits when sailing blue water routes over long distances carrying a full load of cargo.

Ships in port cost significant sums especially over short routes as there are high wharfage charges, stationary running costs, loading and unloading costs, and damage to vessels during this activity. Furthermore they often need a larger crew to manage the loading / unloading process, especially when shipping distances are short. Thus, anything which delays a ship costs the operator serious money, and can make routes uneconomical. These include long pilotage, tidal ports, weather, breakdowns both in the vessel and portside, cargo congestion and even industrial disputation.

- It is also much more efficient and economical for ships to discharge and load full cargoes, and not have to visit several ports for the purpose of filling the vessel prior to sailing for a distant port. In this respect, Tasmania has a number of disadvantages, it is off established shipping routes, the volume of cargo is small and turn- around times must be as short as possible. With low cargo volume it is essential to accumulate freight at one port for regular and frequent collection, as any delays may be unacceptable as many businesses follow the practice of "Just in time" ordering.

Any attempt by Government to financially support the provision of an export shipping service must be most carefully considered. It will be a total waste of funds, (that could be put to better use in providing long term infra-structure), if a shipper merely visits while the funds are being paid but ceases the service when assistance is no longer forthcoming. No excuses will be acceptable to the business community or the public.

- In addition, there needs to be co-ordinated moves by both Federal and State Governments to standardise the size of containers (Domestic and export) and freight pallets to obviate the necessity to unload and re-stuff containers in Melbourne and other freight hubs prior to their export.

## Tasmanian Ports

- Hobart: This is an excellent harbour and one of the most important Antarctic supply bases, though it competes with New Zealand in this function. It is also much visited by cruise ships, hosts a number of local ferry services, fishing boats and many

pleasure craft. Geographically it is at the wrong end of the island to sustain commercial freight services.

- **Bell Bay:** This port was developed when boats became too big to sail up the Tamar River to the Port of Launceston, and is extensively used by the major industries in the area especially for the export of bulk commodities. Container vessels no longer use the port and it has all the problems inherent in a river port as mentioned above.
- **Devonport:** As with Bell Bay, Devonport is a river port and faces similar problems especially as ships get larger. Devonport has long been the arrival point of the Trans-Bass Strait ferry service linking Tasmania with Melbourne. At the time of the introduction of the current "Spirit" service there was much comment when it became known that the additional cost for fuel each year for each ship to berth in Devonport, as distinct from the shorter crossing to Burnie, would be \$1.0m per boat per year! There can be no doubt that this subsidy for the port has substantially increased since that time. The ferries were purchased for the express purpose of transporting people and their vehicles each way across Bass Strait and the Federal Govt. has provided a passenger and vehicle subsidy for this purpose, to make to cost similar to that which would be incurred if the journey were available overland, as would be the case on the Mainland. Freight, especially perishable goods, were to be carried as a "Fill-up" function to assist with the economic viability of the service, and to provide an overnight service for perishable goods to and from the Mainland.

There can be no justification for the T.T. Line to consider purchasing a freight only vessel to compete with the commercially owned shipping services, nor to leave passenger's vehicles on the wharf so as to take freight. Indeed, to do so may call into question whether or not the Freight Equalisation Scheme should be graded, with the freight to and from the closest port getting the maximum subsidy. This would be most regrettable.

In terms of infra-structure access to the port, there is no rail link to the east side of the Mersey River and truck access to both sides of the river is essentially via suburban streets, and freight storage is limited. The port is the major outlet for cement from the Goliath plant in Railton, and also has hydro-carbon fuel storages, and is the home port for SeaRoad freight vessels.

- **Burnie:** For many years Burnie was the fifth largest container port in Australia after Melbourne, Sydney, Brisbane and Adelaide. It is the closest port to Melbourne and has the largest and only container crane in the State, but it needs repairs and is said to be out of survey. The port itself is somewhat exposed during occasional inclement weather, but access and egress is short, rapid and the best in the State.

The wharves are only 200 meters long and need to be lengthened or have mooring dolphins put in place to accommodate even larger freight ships and cruise boats. It would need to be dredged to accommodate ships with a draught of greater than 10 m. Though storage space is limited there is an area of 2 + hectares north of the Toll terminal that could easily be reclaimed for such purposes, and a major wharf could be constructed on the northern side of that development. Wind problems at such a site could be substantially alleviated by the installation of at least a double row of vertical wind turbines. There is also the possibility of developing a bulk mineral



conveyor gantry pier similar to that at Port Latta, should the need arise and volume of material become available.

Rail and road access are short and the rail freight terminal to be built in the first half of 2014 should provide even better and more efficient facilities for shippers. With good freight handling, management and scheduling of deliveries, Burnie should be able to handle significantly larger freight volumes and we totally support the view of the T F L C that it should be the major container port in Tasmania.

## Tasmania's Freight.

Bulk freight is exported from Tasmania via the ports of Bell Bay, Burnie and Port Latta. Bulk freight accounts for 62% of freight. Non-bulk freight makes up the remaining 38% of the total with a total of 457,000 TEU per annum. 82% is carried by road and the balance (18%) by rail. When the \$400.00m upgrade to the Tasmanian rail system is completed it is hoped that further increases in the freight load will be taken by rail. Not only is it a less expensive and more efficient form of transport for bulk goods, but it is more environmentally sustainable and restricts the numbers of freight vehicles on the roads, with a hoped for reduction in highway wear and tear and improvement in road safety for other road users.

The major freight routes in the State are along the Midland and Bass Highway corridors with other routes serving the Fingal and Tamar Valleys, the West Coast and the Circular Head areas. While there is clearly a need to upgrade parts of these highways, that can be done over time by firstly increasing the number of passing lanes, and also by allowing a higher speed limit in the passing lane area so that the front vehicle simply does not just pull out, accelerate to 110Km/h and by the end of the lane only 2 or 3 vehicles have passed the slower moving truck. This merely causes frustration and that in itself can lead to accidents.

It must be remembered at all times that scale and volume are the key components in the planning and delivery of an efficient freight infra-structure and services. Efficient ports are the key to long term freight planning in this State, but having three ports with similar infra-structure is simply unsustainable. There must be some degree of specialisation but the long term trends for freight and shipping in the rest of the world must also be recognised.

Infra-structure planning with clearly defined objectives and time frames, and industry/community support are critical, as is access to funding for roads, rail and ports, to ensure the best and most efficient outcomes for all parties. Local loyalties, political parochialism and convenience, are short term phenomena that we simply cannot afford to stand in the way of the long term prosperity of this State.

## Ownership of the freight infra-structure.

The Tasmanian Government is in the unique position of owning all major freight infra-structure in the State. While this has some advantages, it also poses serious problems. State owned monopoly Government Business Enterprises appear to have a philosophy of looking after their real estate and have the serious disadvantages of a lack of competition, a tendency to develop top heavy administration, and to believe they are "Protecting tax-payers money". This is at best regrettable and these issues need serious action, in our view, to make these enterprises lean and competitive. There is no difference between tax-payers money, shareholders money, or in the case of a private company, the owner's funds. Such a claim is therefore a smoke screen for inaction and inefficiency. If the senior management

cannot perform effectively, the Government, the real custodian of tax payer's funds, should be asking why and moving them on.

A further disadvantage of Government ownership of business enterprises is that successive Governments have viewed them as "Milking cows" from which to extract often large dividends in order to balance their books and fund other activities (The forestry industry being a notable exception). We believe that this payment of often large dividends deprives many GBEs of capital funds to re-invest in and improve their business performance.

The Chamber is of the view that passenger and vehicle services with "top-up" perishable freight services should remain in Government ownership. However we are confident that effective competition can only be ensured if there are two or more private enterprise companies offering the balance of freight services. We also believe that there may be considerable opportunities for private funding of both ports and other infra-structure. There are huge amounts of money in Australian superannuation funds and it may be time to begin exploring ways to access and utilise these funds, with appropriate safeguards, for infra-structure projects not only in Tasmania but across the Country .

## The Tasmanian Freight Equalisation Scheme

This scheme provides funds for the movement of specified goods across Bass Strait so that the cost of these movements can be similar to the cost of moving them a similar distance overland. i.e. it is a financial bridge. The scheme has been very successful in many respects and is vital for the continued functioning of many businesses in Tasmania. However it has in some cases distorted employment patterns and markets. Eg. It is possible to get the subsidy for transporting live lambs to the Mainland for slaughter and export. While this is inefficient in itself and removes slaughter works jobs from this State, it does open the market for livestock to mainland buyers, and the producers receive a considerable benefit from this increased competition through higher livestock prices and returns..

The administration of the Scheme is apparently enormously complex, and it would appear that the administration and provisions of the Scheme need to be reviewed and made easier to understand. It is also essential to keep it as simple as possible, and to enable appropriate changes to be made to the Scheme to take into account changes to freight and logistics technology, and it should be available for goods going direct for export.

## The Australian economy and the floating of the Australian Dollar.

Whilst there can be no doubt that the economic reforms brought in by the Hawke / Keating era have placed the Australian economy on an international footing, one of the major unintended consequences of the floating of the A \$ has been that Australian wages relative to those in overseas countries can vary in value very significantly. Taking into account that many export contracts continue to be written in American dollars, when the Aus \$ varies from 50cents US to as high as \$1.00 - \$1.10c US, the cost and value of Australian wages, goods and services effectively doubles compared with those in the U.S.A., due to relative currency valuation changes. It is therefore not surprising that in recent years exporters from Australia have lost a huge competitive edge compared to companies overseas. How such a problem can be ameliorated or solved is open to question, but must include variations in wages, government charges and levies, or special tax arrangements for companies involved in exports. There is also no doubt that the disproportionately high wages paid to workers in the mining and associated industries in recent years has exacerbated the major problems



faced by most other employers in all sections of the economy. Consideration must be given to mechanisms to control these issues by the Government and the Fair Pay Tribunal.

## Other options

To be rid of the problem of Tasmania and subsidies being paid to it being an island state, perhaps a committee of inquiry should be appointed into the financial and tax arrangements for businesses and individuals in this State. We should consider the position in the UK, where the Isle of Man and the Channel Islands have different tax arrangements from the rest of the country, but still remain part to the country for defence and foreign /overseas purposes. The economies of these islands are flourishing based on their ability to impose their own tax systems but pay tax to the Central Government.

## Conclusions

The BCCI is firmly of the view that market forces should direct the future of the Tasmanian freight industry in collaboration with both State and Federal Governments, who each have a role to play in ensuring that scarce taxpayer dollars are spent to get the most efficient and greatest return for this State.

Rail freight has a big part to play in the increased freight load and needs to be well managed. There are clear signs that this is now happening.

In light of the world wide trend away from river ports, any major expenditure on long term projects will need to be very carefully considered. We must understand that we need to have definite objectives, clearly planned strategies to put them into effect, and that we are dealing with a long term project. There can be no short cuts just to relieve political pain and parochial angst. The long term prosperity of this State must be our sole objective.

The Burnie Chamber of Commerce and Industry also strongly believes that The Productivity Commission has an obligation to ensure that its Report re-enforces the conclusions of the Tasmanian Freight Logistics Committee that there should be only one major port in the State through which general cargo is moved, and that is the Port of Burnie.

We further strongly recommend that The Commission should emphatically request the Federal Government to establish an independent statutory authority to carry through this development project, especially as most of the funding would presumably come from the Federal Government over a period of years, and as we have serious reservations that, regardless of which party is in power, neither the State Government nor its agencies, could and would be unable to ignore local political and parochial influences that would deflect them from their task.