

Tasmanian Shipping Inquiry  
Productivity Commission  
GPO Box 1428  
Canberra City, ACT 2601  
[tasmanian.shipping@pc.gov.au](mailto:tasmanian.shipping@pc.gov.au)

7 February 2014

Dear Sir / Madam

***Re: Productivity Commission Draft Report into Tasmanian Shipping and Freight***

Bell Bay Aluminium [BBA] is pleased to have the opportunity to make a submission in response to the Productivity Commission Draft Report into Tasmanian Shipping and Freight [the Report]. This submission is in addition to the submission made by BBA on 12 December 2013. BBA broadly supports the recommendations in the Report in examining shipping costs, competition and shipping industry competitive structures across the Bass Strait. Shipping across Bass Strait is one of the most expensive components of our freight export.

BBA's concerns about the cost of freight remain centred on two key aspects:

1. Closing the gap between "competitive international labour costs" versus domestic labour costs for Bass Strait; and
2. Tasmanian port and wharf costs inefficiencies.

BBA operates in an international market where the price paid for aluminium from BBA is the same price paid for aluminium worldwide. This price is determined by the London Metals Exchange (LME). To be an internationally competitive business and value add to Australia's resources, BBA must be able to operate within an internationally competitive freight regime for inbound and outbound freight.

As an Australian based operation, Bell Bay Aluminium operates in a global economy and attempts to become and remain viable in a long-term sustainable manner, free of subsidies. To ensure BBA can do this it relies on the Australian Federal and Tasmanian State Governments to ensure infrastructure operates in a globally competitive manner. If the regulations do not ensure businesses like BBA can access internationally competitively priced shipping, then businesses become uncompetitive and in time, either close now or prolong closure through some form of subsidisation. It is incumbent on the federal government and state government to create the environment for Tasmanian businesses to compete on an equal footing with other global businesses producing products for the rest of the world. Based on recent benchmark data, Tasmanian businesses are disadvantaged not only on a global basis but even when compared with interstate businesses.

While BBA was pleased to see the report acknowledge recent Australian Government changes to coastal shipping policy have reduced competition on Australian coastal trades and adversely affected Tasmanian shippers and businesses, there is an option which has not been considered in the current recommendations. That is, should there be a "Tasmanian exclusion zone" from legislation such as the Coastal Trading Act, which would have the potential to benefit every Tasmanian business / person who relies on sea transport? This could be in addition to broader reforms of the Coastal Trading Act at a Federal level.

In addition to this, BBA supports the report's first recommendation for the Australian Government to proceed with the foreshadowed review of coastal shipping regulation as soon as possible. The objective of the review should be to achieve the most efficient coastal shipping services feasible for Australia. BBA agrees with the Commission in that, at a minimum, the review should recommend the removal of any anti-competitive provisions from relevant legislation, unless a clear case publicly demonstrates that there is a net benefit to the community as a whole.

Following the introduction of the Coastal Trading Act 2012, BBA faced increased costs from \$18.20 a tonne in 2011 to \$29.70 in 2012, or a 63 per cent increase. This compared with \$17.50 a tonne charged by international operators in 2012. The new licensing arrangements have led to greatly reduced shipping options and competition in the market and an associated increase in the cost of shipping. In the current tough operating conditions BBA needs to look at every opportunity to improve our costs and still meet our customers' needs.

With regard to Recommendation 5 (*The Australian Government should introduce payment of sea freight assistance as a single flat rate of subsidy per TEU (twenty foot equivalent unit) shipped. The Bureau of Infrastructure, Transport and Regional Economics should recommend a dollar amount for assistance, taking into account:*

- *the parameter or parameters that the flat rate should be based on; and*
- *that the flat rate should provide assistance that is compatible with the incentive to seek the lowest shipping cost.*), BBA considers that this does not address the underlying problem of Tasmania's high shipping and port costs. BBA only supports this option if the primary option of truly internationally shipping and port costs is deemed unlikely as part of this enquiry.

BBA supports Recommendation 12 (*The Tasmanian Government should articulate its underlying objective/s in owning and operating a shipping business and assess whether ownership of the TT-Line is the most cost-effective way in which to achieve those objectives.*). In BBA's view, governments and large industry are often inefficient at owning and operating ships with non-commercial motivations. BBA questions whether government ownership of the TT line is effectively another form of subsidisation on the cross Bass Strait route that is contributing to supply of a premium service that is well beyond the minimum needs of some Tasmanian businesses who are captive users. For example, do the freight movements across Bass Strait actually need a daily/overnight service?

Failing the changes to Coastal legislation having sufficient economic impact, then the equalisation of containerised goods bound for export via Melbourne should be a feature.

When compared against Gladstone for instance, costs are three to five times more in freight rate than in Tasmania. For example, specific cost differentials based on the same ship / cargo travelling out of Gladstone and into Bell Bay include:

<b>Item</b>	<b>Bell Bay</b>	<b>Gladstone</b>
<b>Towage</b>	\$33,137	\$8,156
<b>Wharfage / Tonnage / Berthage</b>	\$18,800	\$8,365

It is worth noting that these costs are paid by all ships (coastal and international vessels) and that addressing coastal shipping alone will not resolve this issue. This is in part addressed through Recommendation 13, (*the Tasmanian Government should assess the commercial viability of*

*TasPorts and potential changes to enhance its operation. The assessment should include a consideration of alternative models for the provision of port infrastructure, including the feasibility of privatisation, long term leases, and targeted divestment of port assets.)* However, overall port costs need to be addressed through a review of Tasports, to provide a clear strategy of the number of ports that will continue to be used in the future so that infrastructure to support Tasmania can be developed and funded. Tasmanian ports must reduce costs to that of mainland Australia.

The Report also requested information with regard to: *What would be the potential impacts (both positive and negative) on Tasmanian firms and industries, and the Tasmanian and Australian economy more broadly, of the following optional changes to the coverage of the Tasmanian Freight Equalisation Scheme within current funding levels:*

- *extending the northbound component of the scheme to include all eligible goods shipped from Tasmania to the Port of Melbourne*
- *extending the northbound component of the scheme to include all eligible goods shipped from Tasmania to the Port of Melbourne and removing the southbound component of the scheme for all goods shipped from the Australian mainland to Tasmania?*

For BBA, the loss of southbound Tasmanian Freight Equalisation Scheme (TFES) would have a marginal impact on the operation. However, extending the TFES to all northbound freight to include international metal shipped via the Port of Melbourne would be of significant benefit to BBA.

BBA would welcome the opportunity to provide more information to the Inquiry. Please direct all enquiries in the first instance to Marghanita Johnson, Manager External Relations

Yours sincerely,

Ray Mostogl  
General Manager, Bell Bay Aluminium