



7 February 2014

Karen Chester
Presiding Commissioner
Tasmanian Shipping Inquiry
Productivity Commission
GPO Box 1428
CANBERRA CITY ACT 2601

Dear Ms Chester,

Re: Tasmanian Shipping and Freight Inquiry

We have examined the Productivity Commission's draft report on Tasmanian Shipping and Freight, which was released in January 2014.

Our detailed observations are contained in the Attachment to this letter. Further information is provided below in response to some of the requests for information.

**INFORMATION REQUEST 3
(CHAPTER 4)**

To what extent does the government-owned TT-Line provide competitive pressure in the Bass Strait shipping market? Would a scenario with only the two commercial shippers provide a more cost-effective outcome?

TT-Line provides a unique service for two segments of the Bass Strait market, being time-sensitive freight and passengers. It also offers capacity for general trailer freight and as such provides competitive pressure in the Bass Strait shipping market.

The government-owned ROPAX service appears to have mixed objectives between passengers and freight. There is a potential for cross-subsidisation that can distort the market.

A scenario with only the two commercial shipping operators would provide a more cost-effective outcome because:

- Same cost structure
- Level playing field
- No cross subsidisation
- Incentive to invest in ships and infrastructure
- Take advantage of economies of scale
- Opportunity to reduce freight rates, or reduce costs leading to a reduction in unit freight rates.

However such a scenario would mean that the time-sensitive freight would suffer.

INFORMATION REQUEST 4 (CHAPTER 4)

What would be the potential impacts (both positive and negative) and efficacy of an alternative approach to the current TFES/BSPVES model whereby the Australian and Tasmanian Governments would use their current financial commitments under the schemes to cease paying individuals and businesses and instead secure more directly the Bass Strait freight and passenger services they are seeking through a periodic open tender process?

A subsidised service works best in instances where there is little or no competition, for example, the Western Australian coastal shipping service and the King Island service.

- *The Western Australian coastal shipping service*

Formerly Stateships, the Western Australian coastal shipping service carried cargo from Fremantle as far as the Kimberley. The shipping service was in itself a monopoly however had competition from road transport. It was recognised as an unprofitable service so the State Government offered a subsidy to private enterprise to provide a one ship service. The subsidy was in the order of \$4 million in the early 2000s, with a facility to increase the subsidy if a two ship service was provided. However, the twice monthly service remained a single ship service.

A general purpose geared ship, carrying bulk, break bulk, unitised and any wheeled cargo that could be lifted on to the ship, was provided by and operated in the service by private enterprise. To minimise losses the shipping service included the Pilbara and Darwin in its schedule.

The Western Australian State Government ultimately withdrew the subsidy (\$7 million at that point) and the operator withdrew its service in August 2013.

- *The King Island shipping service*

The King Island RORO shipping service was contracted by the Tasmanian State Government at a subsidy of \$250,000 per annum indexed over a 10 year period.

At the end of the ten years (April 2001) the State Government did not renew the contract and withdrew the subsidy on the basis that ‘the service was commercially viable’.

The operator (SeaRoad and its predecessors) has continued with the service, fitting it in to its core six day a week overnight service between the Port of Devonport and the Port of Melbourne.

Unlike the Western Australian coast and King Island, the market between the main island of Tasmania and mainland Australia is complex with many types of freight and customers. While there is very limited competition in terms of types of transport on offer (sea versus air), there is strong competition within the incumbent shipping operators.

A subsidised service in Bass Strait would discourage non-subsidised competition in the trade with no incentive to improve service.

A better way would be for the current TFES/BSPVES model to be simplified.

**INFORMATION REQUEST 5
(CHAPTER 4)**

What specific benefits would there be for Tasmanian shippers from removing restrictions on coastal shipping?

The recent changes to coastal shipping regulations have not increased costs for the domestic Bass Strait RORO shipping operators. However, removing restrictions on coastal shipping would result in the following negatives:

- No dedicated domestic operator(s)
- No investment/reinvestment in Bass Strait
- No certainty of service

**INFORMATION REQUEST 6
(CHAPTER 4)**

To what extent will the Tasmanian Government and TasPorts' plan for port specialisation enable Tasmanian ports to capture the efficiencies available from greater scale?

From the point of view of the domestic operator, port specialisation would:

- Still require separate berths and terminal facilities for the RORO operators (no different from the arrangement in the Port of Melbourne)
- Relocation costs and incentives would need to be offered to consolidate the RORO operators into one port
- Aggregating cargo may provide benefits however it would be in the supply chain rather than at the port

From the point of view of the domestic customer, port specialisation would create winners and losers as a result of the geographic location of the specialised port. Land transport becomes an issue as it did with the Bell Bay shippers who have had to move their product to Devonport after the withdrawal of the AAA and Agility Shipping services in 2011.

From the point of view of the international shipping operator, it is not the volume on offer that is determining international calls in these times; it is the size of the ships and their scheduling. Therefore the port specialising in international volumes will require a large investment in infrastructure with a long term payback.

Port specialisation may provide an alternative service offering to the current situation, with an international liner trade providing both domestic and international shipping. The risk here is that there is no commitment to service plus a lessening of competition.

Note that, prior to the withdrawal of the AAA service, the majority of international cargoes was shipped out of Bell Bay. Despite the aggregation of volume, the AAA still withdrew its service because of vessel size and scheduling considerations.

**INFORMATION REQUEST 7
(CHAPTER 4)**

To what extent is uniform pricing distorting decisions in regards to activities and investment at Tasmanian ports?

To what extent does the current pricing strategy of TasPorts reflect efficient costs of providing the port infrastructure and services?

Uniform pricing by TasPorts implies that it is behaving as a monopoly with little or no negotiation. There is no competition between ports. In the past such competition has assisted in making major business decisions taking into account significant operational savings.

Note that TasPorts is also the sole provider of towage and pilotage services in Tasmania.

We trust that the attached information and comments will be of assistance in finalising the report. We look forward to meeting with you on 11 February 2014

Yours sincerely,
SeaRoad Holdings Pty Ltd

Jacqueline Jennings
Chief Financial Officer

ATTACHMENT

COMMENTS ON THE PRODUCTIVITY COMMISSION'S DRAFT REPORT INTO TASMANIAN SHIPPING AND FREIGHT, JANUARY 2014

Overview

ITEM	PAGE #	SECTION HEADING & REFERENCE	COMMENT
1	2	Key points 8 th bullet point	<p><i>Tasmania is serviced by high quality but high cost containerised shipping services.</i></p> <p>“Containerised” does not fully describe the cargoes carried by the incumbent domestic Bass Strait operators.</p> <p>We suggest that this sentence be changed to read “Tasmania is serviced by high quality but high cost roll on roll off shipping services carrying containerised, wheeled and other cargo.”</p>
2	2	Key points 8 th bullet point	<p><i>Given its reliance on sea transport, it is particularly vulnerable to coastal shipping regulation which should be reviewed and reformed urgently.</i></p> <p>The inclusion of “and reformed” pre-empts any outcomes from the proposed review of coastal shipping regulation.</p> <p>We recommend that these words be deleted.</p>
3	16	Shipping and freight 2 nd paragraph	<p><i>The efficiency of Tasmanian shipping and freight is driven by several direct and interrelated factors: the lack of competition; scale; and capital.</i></p> <p>We suggest that the highlighted words be replaced with “the lack of competing modes”.</p>
4	17	Competition 4 th paragraph	<p><i>The later daily departure time and faster speed of the TT-Line service and its capacity for handling trailerised fresh freight mean that it offers a slightly different service.</i></p> <p>All three Bass Strait operators can handle trailerised fresh freight.</p> <p>TT Line has a limited service in comparison with Toll ANL and SeaRoad: it can only take trailerised freight, cars and caravans, that is wheeled units. However, its speed and longer time in port provides an excellent service for perishable, time-sensitive cargo.</p>

ITEM	PAGE #	SECTION HEADING & REFERENCE	COMMENT
5	17	Competition 5 th paragraph	<p><i>While producers in Tasmania have diverse needs and many would prefer a lower cost and quality service, they have mostly adapted their business operations to the current level of service.</i></p> <p>This statement implies that the overnight service is a recent phenomenon.</p> <p>Note that the overnight services on Bass Strait have been in place for many years:</p> <ul style="list-style-type: none"> • Toll and predecessors – since the 1980s • SeaRoad and predecessors – since the 1990s • TT Line – since early 2000s
6	20	Coastal shipping regulation 2 nd paragraph	<p><i>Some inquiry participants suggested that coastal shipping deregulation would result in the return of main liner consortia calling on Tasmanian ports.</i></p> <p>Deregulating Australian coastal shipping on its own will not attract the return of main liner consortia to Tasmania because the decision is not made on cost alone. Potential calls by international shipping lines depend on:</p> <ul style="list-style-type: none"> • Vessel size • Scheduling • Volume
7	20	Coastal shipping regulation 4 th paragraph	<p><i>The cumulative effect of the recent changes has been a reduced interest from international vessels engaging in the Australian coastal trade and, consequently, reduced shipping options for users of domestic shipping services.</i></p> <p>Note that the AAA service was not withdrawn from Tasmania as a result of the 2012 Shipping Reform legislation. The service ceased in 2011 because of :</p> <ul style="list-style-type: none"> • Vessel size • Schedule limitations • Lack of volume

ITEM	PAGE #	SECTION HEADING & REFERENCE	COMMENT
8	20	Coastal shipping regulation 4 th paragraph	<i>They also increase the costs of providing domestic coastal services, to which Tasmania remains especially exposed.</i> The 2012 Shipping Reform legislation did not increase the cost of providing domestic RORO coastal shipping in Bass Strait.
9	21	Tasmanian ports 3 rd paragraph	<i>In 2012-13, the total throughput of Tasmania's three northern ports was around 451 000 TEU, of which Burnie and Devonport accounted for around 56 per cent and 43 per cent of container traffic respectively.</i> We understand that the 451,000 TEU is made up of approximately 320,000 container TEU and 130,000 trailer TEU. Both include full and empty TEU. Cars are excluded from these numbers. This mix of container and trailer volume makes the use of "container traffic" misleading.
10	24	An integrated freight strategy 2 nd paragraph	<i>The onus is primarily on shippers to ensure that cost saving opportunities are realised through the sharing of information that may assist in reducing the flow of empty containers.</i> We are unsure if the term "Shippers" relates to the shipping lines or the cargo owners. The domestic Bass Strait shipping lines constantly seek to find solutions to the repositioning of empty containers because this assists with vessel utilisation. However, limitations arise with factors such as restrictions on discussions with competitors, lack of cooperation and willingness of different parties involved. Differences between international and domestic container sizes are also an issue (as mentioned at the public hearings).

Chapter 1 Introduction and scope

ITEM	PAGE #	SECTION HEADING & REFERENCE	COMMENT
11	35	A matter of geography 1 st paragraph	<i>The cessation in 2011 of weekly direct international container shipping services to and from Tasmania has meant that most international container freight is currently transhipped through the Port of Melbourne.</i> Note that by 2011 the AAA service had already reduced its weekly service to fortnightly calls.

Chapter 2 Tasmania's freight in context

ITEM	PAGE #	SECTION HEADING & REFERENCE	COMMENT
12	39	<p>Key points</p> <p>2nd bullet point</p>	<p><i>As with all businesses across Australia, the productivity and economic performance of many Tasmanian businesses is affected by their ability to move goods through supply chains to intra- and inter- state markets, as well as markets overseas.</i></p> <p>Supply chains are just one factor that affects productivity and economic performance and therefore should not be considered in isolation. Other factors include:</p> <ul style="list-style-type: none"> • Foreign exchange, particularly with the recent strength of the Australian dollar • Federal and State Government policies and decisions such as carbon pricing and the Victorian Port Licence Fee • International ownership of local industries • Run off from the Global Financial Crisis • Local political activism such as the Tasmanian Greens and their impact on the timber industry <p>We suggest that the words “among other things” be included in the sentence as in “...many Tasmanian businesses are affected, among other things, by their ability to move goods through supply chains...”</p>
13	41	<p>Tasmania's economy at a glance</p> <p>3rd paragraph</p>	<p><i>Structural changes have reinforced the demand for high frequency shipping services across Bass Strait for a number of industries.</i></p> <p>This statement implies that the overnight services on Bass Strait have been implemented in response to recent structural changes.</p> <p>As noted in point 5 above, the overnight services on Bass Strait have been in place for many years.</p>
14	47	<p>Trends in sea freight</p> <p>1st paragraph</p>	<p><i>From its peak in 2003-04, the total trade volume across Bass Strait has declined — down 22 per cent by 2011-12.</i></p> <p>Figure 2.2 on page 46 has peak trade volumes of 11 million tonnes in 2003-04. If total trade volume has declined by 22% since the peak, why does Table 2.1 show total trade of 12.9 million tonnes in 2011-12?</p>
15	48	<p>Bass Strait Islands' freight task</p> <p>2nd paragraph</p>	<p><i>Also, restrictions to existing wharf infrastructure capabilities mean that access to the island [King Island] is severely limited.</i></p> <p>Note that all of the Bass Strait islands have limited port facilities.</p>

ITEM	PAGE #	SECTION HEADING & REFERENCE	COMMENT
16	53	Box 2.3 Stylised cost structures of road and sea freight 2 nd paragraph	<i>Sea freight is characterised by large fixed costs... and relatively low marginal costs... The fixed costs include the overhead of owning or leasing vessels, crewing them and the port costs (such as wharfage) associated with loading and unloading the goods. Marginal costs relate to costs that vary with use of vessels over different distances such as fuel, wages and additional repairs and maintenance.</i> Wharfage is a variable cost associated with cargo, not with the ship. An empty ship will not incur wharfage.
17	54	Factors influencing the cost of freight 1st sub-bullet point	<i>the impact of government policies — a range of government policies affect freight costs including:</i> - <i>the extent of under- or over-recovery of costs for some road and rail infrastructure through registration fees, diesel excise, flagfall charges and other fees</i> Diesel excise affects ship fuel. The diesel fuel rebate has been reduced since carbon pricing was introduced in 2012, increasing fuel costs for shipping operators. Movements in fuel prices are passed on to shippers via fuel surcharges.

Chapter 4 Sea freight

ITEM	PAGE #	SECTION HEADING & REFERENCE	COMMENT
18	105	Key points 4 th bullet point	<i>Recent Australian Government changes to coastal shipping policy have reduced competition on Australian coastal trades and adversely affected Tasmanian shippers and businesses.</i> Recent Australian Government changes to coastal shipping policy do not affect direct movements of cargo between Tasmanian ports and international markets. The changes can affect interstate cargo movements on foreign ships (generally bulk commodities). The changes have not adversely affected Tasmanian domestic RORO shipping services.

ITEM	PAGE #	SECTION HEADING & REFERENCE	COMMENT
19	105	Key points 5 th bullet point	<i>Participants' concerns throughout the inquiry have primarily related to containerised freight across Bass Strait. There appear to be fewer concerns regarding bulk trade.</i> The concerns relate to containerised freight destined for international markets.
20	107	Table 4.1 Features of Bass Strait shipping services	We propose the following changes to Table 4.1: Change heading to: "Features of Bass Strait RoRo shipping services" Amend table to read (changes in bold):

Table 4.1 Features of Bass Strait RoRo shipping services

Feature	Toll ANL	SeaRoad	TT-Line
Vessels & capacity	Two RORO vessels: <i>MV Tasmanian Achiever (500 TEU) and MV Victorian Reliance (500 TEU)</i>	Two RORO vessels: <i>MV Searoad Tamar (260 TEU) and MV Searoad Mersey (182 TEU)</i>	Two ROPAX vessels: <i>MV Spirit of Tasmania I (160 TEU) and MV Spirit of Tasmania II (160 TEU)</i>
Frequency	Overnight, six days per week plus extra sailings during peak demand	Overnight, six days per week plus extra sailings during peak demand , plus weekly service to King Island	Overnight, daily plus extra day sailings during peak demand
Ports	Operates between Port of Burnie and Port of Melbourne	Operates between Port of Devonport and Port of Melbourne, and a weekly service to King Island	Operates between Port of Devonport and Port of Melbourne
Freight carried	General purpose containers, refrigerated containers, cars and trailers, equipment and livestock	General purpose containers, refrigerated containers, cars and trailers, equipment and livestock	Road freight trailers, cars and trailers, caravans and other wheeled units
Other services offered	Logistics and freight forwarding services	Logistics and freight forwarding services	Vessels primarily designed to carry passengers

ITEM	PAGE #	SECTION HEADING & REFERENCE	COMMENT
21	108	Bass Strait Islands 1 st paragraph	<i>King Island is serviced by SeaRoad Holdings with a weekly service provided by the MV SeaRoad Mersey (sub. 35, p. 4).</i> Correct spelling is <i>MV Searoad Mersey</i> .
22	109	International shipping 1 st paragraph	<i>In May 2011, direct international container shipping to and from Tasmania ended with the withdrawal of the AAA consortium's weekly Bell Bay–Singapore service.</i> Refer to point 11 above.
23	110	Cost of shipping 1 st paragraph	<i>... the way freight is presented causes significant operational issues and inefficiencies with receipt, handling and storage at terminals; and stowage on board RORO vessels. (Aurecon 2013c, p. 6)</i> We disagree with this statement. The cost of shipping services on RORO vessels is generally higher than container shipping because of the cost of: <ul style="list-style-type: none"> • specialised vessels • operating the vessels • dedicated terminals • dedicated stevedoring services These fixed costs are common across the three Bass Strait RORO providers. The way freight is presented for the Bass Strait RORO shipping trade is no different from the majority of short sea RORO operations worldwide.

24	110	Cost of shipping 2 nd paragraph	<p><i>RORO vessels also spend more time in port, incurring proportionately higher port and stevedoring charges compared to vessels on longer routes (Net Sea Freight sub. 26, p. 5).</i></p> <p>We disagree with this statement, which is confusing distance and the nature of the market with the type of vessel.</p> <p>If a Lift on/Lift off (LOLO) ship were to operate a daily service on Bass Strait it would be subject to longer hours in port to handle the same volume as the RORO operators. This is because cargo exchanges with a LOLO ship are slower than a RORO (1-2 TEU per crane lift versus 4 TEU per cassette or roll trailer movement). This is why RORO vessels are so suitable for the Bass Strait trade.</p> <p>As an example, <i>MV ANL Bass Trader</i> was unable to exchange maximum cargo loads in the time available in port for an overnight service.</p> <p>In addition the three Bass Strait RORO operators have dedicated terminal facilities which are fixed costs to the operations regardless of the time in port.</p>
25	111	Cost of shipping 1 st paragraph	<p><i>Thus, freight users with low volumes or who have highly seasonal requirements will generally pay more than users with large and consistent volumes (FLCT 2013b).</i></p> <p>Variables in pricing include:</p> <ul style="list-style-type: none"> • commodity • seasonality • type of unit carried • ship capacity by cargo type • competition for parcels of freight <p>Prices are not adjusted upwards in the low season to spread fixed costs over the volume of freight carried.</p> <p>One would generally expect pricing to increase during peak times reflecting demand and supply. However for the majority of shippers this does not happen because of ongoing arrangements (contracts) and competitive pressure in the market.</p>

26	111	<p>Cost of shipping</p> <p>Table 4.2</p>	<p>Table 4.2 illustrates Bass Strait voyage costs.</p> <p>It does not include the fixed costs associated with:</p> <ul style="list-style-type: none"> • dedicated terminal facilities • dedicated stevedoring labour and • specialised stevedoring equipment <p>In addition, cargo shipped attracts variable costs including:</p> <ul style="list-style-type: none"> • wharfage (set by the ports) • containers (where applicable) • quarantine costs • land transport (where required)
27	111	<p>Cost of shipping</p> <p>2rd paragraph</p>	<p><i>Data from the Bureau of Infrastructure, Transport and Regional Economics (BITRE), for example, indicate that in 2011-12, the median wharf-to-wharf cost was \$1129 while total door-to-door cost was \$1800 per TEU (62 per cent of the total cost) (BITRE 2013b, p. 21).</i></p> <p>Are these BITRE rates a true reflection of average wharf to wharf rates across Bass Strait?</p> <p>Note that these costs have been derived from a study of the TFES claims for the 2011-12 financial year. They are not representative of the total Bass Strait trade because not all of the Bass Strait trade is eligible for the TFES.</p> <p>Furthermore, BITRE has used median rates rather than average rates.</p> <p>Compare the BITRE numbers with Toll’s 20ft GP rate of \$700-\$950 on page 112 and Aurecon’s findings of \$800 to \$1200 per TEU in Box 4.2 on page 113.</p>

28	111	Cost of shipping 3 rd paragraph	<p><i>Bass Strait shipping rates fell significantly in real terms from the early 1980s to the end of that decade...</i></p> <p>Note that the biggest change in the 1980s that affected shipping rates was the implementation of the Maritime Industry Development Committee (MIDC) initiatives. These resulted in company employment of seafarers and a significant reduction in manning per vessel.</p> <p>For example, <i>MV Bass Trader</i> (operated by SeaRoad’s predecessor in the 1990s) had its manning reduced from 35 to 18 after MIDC.</p> <p>Current manning levels in Bass Strait are between 13 and 17 on the pure ROROs.</p>
29	112	Cost of shipping 2 nd paragraph	<p><i>These added costs have made it difficult for many Tasmanian exporters to remain competitive and are claimed by some to be responsible for a fall in exports:</i></p> <p><i>The loss of an international shipping service has caused sea freight exporters ... to bear significant additional costs as a consequence of shipping through the Port of Melbourne. Many companies cannot absorb this cost as they are price takers in international markets. (TCCI 2012, p. 5)</i></p> <p>A fall in exports can be attributed to other factors such as foreign exchange rates.</p> <p>Note that not all Tasmanian exporters used the AAA service. Some exporters have used the domestic Bass Strait operators as part of their supply chain to international markets for a number of years.</p>
30	113	Cost of shipping Box 4.2	<p><i>The analysis found prices typically ranged from \$800 to \$1200 per TEU. A ‘rack rate’ of \$1050 to \$1150 was indicated by major freight providers for Bass Strait for an ad hoc customer per TEU, while an average of nominal rates from Europe was \$800.</i></p> <p>The comparison between ‘ad hoc’ rates for Bass Strait and nominal rates from Europe is not valid. The majority of Bass Strait trade is not ad hoc, rather contracted volumes or parcels of freight.</p> <p>A better comparison is presented by Toll (sub. 55, p. 2).</p>

31	113	<p>Scale and composition of freight flows</p> <p>1st paragraph</p>	<p><i>The size and composition of Tasmania's interstate and international freight flows have a major influence on the cost of shipping services provided to Tasmania.</i></p> <p>This sentence contradicts the assertion elsewhere that the cost of shipping services provided to Tasmania is a result of the high frequency, premium service on offer by the three domestic Bass Strait shipping operators.</p> <p>The majority of the cost of the shipping service provided by the RORO operators is dictated by the quality and amount of infrastructure in place for the Bass Strait service.</p>
32	113	<p>Scale and composition of freight flows</p> <p>2nd paragraph</p>	<p><i>The relatively small volume of trade across Bass Strait limits the scope to realise economies of scale, and the number of competitors that the market can sustain.</i></p> <p>As noted previously, international calls depend in part on volume although primarily on size of vessel and scheduling.</p> <p>AAA and other consortia are committing to bigger, faster ships to meet scheduling with fewer ships and a reduced number of port calls.</p> <p>Neither Burnie nor Bell Bay can accommodate these ships.</p> <p>For international shipping operators, the size of the Tasmanian market is secondary to the size of the ships, irrespective of any inducements.</p> <p>However it is true for Bass Strait RORO operators that the relatively small volume of trade across Bass Strait would not sustain another RORO operator.</p>

33	114	<p>Scale and composition of freight flows</p> <p>3rd paragraph</p>	<p><i>Freight volumes are fundamental to the viability of international services, with firm commitments for minimum volumes necessary for attracting direct liner calls. Currently, Tasmania’s total international container volumes are around 37 000 TEU out of a total container task of over 450 000 TEU (FLCT 2013a, p. 30).</i></p> <p>As noted in point 9 above, the total container task is not 450,000 TEU per annum. It is 320,000 TEU per annum.</p> <p>As noted in point 32 above, it is the size of the ship and the scheduling that is the major consideration for shipping consortia.</p> <p>Swire Shipping is providing a multi-purpose international shipping service for Bell Bay Aluminium using ships that can be worked in Bell Bay and fit in with the international shipping line’s schedule.</p>
34	115	<p>Scale and composition of freight flows</p> <p>2nd paragraph</p>	<p><i>At present, though, Tasmania’s international container freight is predominantly spread across the three main northern ports. This feature of Tasmania’s freight logistics chain serves to reduce the critical mass of freight volume available at any port to support an international service.</i></p> <p>The current situation with Tasmania’s international freight spread across the three northern ports has only been in place since the AAA withdrew its Bell Bay call.</p> <p>Previously the international cargoes that used the AAA service were aggregated in Bell Bay. The AAA service was withdrawn because of vessel size and scheduling issues, not a lack of critical mass.</p>
35	115	<p>Scale and composition of freight flows</p> <p>5th paragraph</p>	<p><i>These empty container shipments add significantly to costs for shippers, as repositioning them can cost around \$400–600 per container, depending on their final destination (Aurecon 2013a).</i></p> <p>This statement refers to the cost of repositioning overseas, shipper controlled empty containers.</p> <p>Containers owned and provided by the domestic Bass Strait operators are repositioned empty at the operator’s expense, with the supply of equipment by the RORO service included in the shipping rate (refer Toll’s rate of approximately \$60 – sub. 55, p. 2).</p>

36	116	Competition 3 rd paragraph	<p><i>These vessels will be larger than their current ships (in Toll's case, increasing capacity by up to 50 per cent) and have potential to deliver improved operational efficiency.</i></p> <p>We cannot speak for Toll's plans however it should be noted that SeaRoad's first replacement ship will increase its capacity by up to 50 per cent.</p>
37	119	Government ownership of TT-Line 1 st paragraph	<p><i>TT-Line accounts for around 25 per cent of the annual volume of non-bulk freight carried across Bass Strait.</i></p> <p>TT-Line accounts for 21% of Bass Strait non-bulk freight (refer Figure 4.1).</p>
38	119	Government ownership of TT-Line Table 4.3	<p>We suggest that the financial performance be reported with and without vessel revaluation/ impairment to highlight operating performance.</p>
39	119	Government ownership of TT-Line 4 th paragraph	<p><i>A lack of transparency around the financial relationship between the Tasmanian Government and TT-Line makes it difficult to understand TT-Line's commercial performance.</i></p> <p>It is also difficult to understand commercial performance of the passenger service versus the freight service. It may be that there is some degree of subsidisation between the two.</p>
40	121	Government ownership of TT-Line 3 rd paragraph	<p><i>...(a government-owned business in a competitive market will usually be forced to operate efficiently or perish).</i></p> <p>This is only true if the government-owned business in a competitive market does not receive subsidies from the owner-government.</p>

41	121	Government ownership of TT-Line 4 th paragraph	<p><i>TT-Line is very much focused on time-sensitive freight. SeaRoad and Toll don't have overnight. They deal with bulk and a whole range of predominately containers — roll on, roll off. (O'Byrne 2013, p. 5).</i></p> <p>This statement is incorrect.</p> <ul style="list-style-type: none"> • There is no doubt that TT-Line provides a service for time-sensitive freight. However not all of its freight is time-sensitive. A percentage split between the two would be of interest. • SeaRoad and Toll do have overnight services. • SeaRoad and Toll do not carry bulk cargo. They both carry non-bulk cargo including containerised freight, trailerised freight and other cargo types.
42	121	Government ownership of TT-Line 5 th paragraph	<p><i>This suggests that TT-Line is somewhat insulated from market pressures (in two of its markets) that would otherwise sharpen incentives to deliver efficient shipping services.</i></p> <p>Non time-sensitive freight may not be so insulated from market pressures. If capacity in the market increases, competition will increase and TT-Line's non time-sensitive cargo may be vulnerable.</p>
43	121	Government ownership of TT-Line 7 th paragraph	<p><i>Government ownership of TT-Line may be an impediment to more efficient shipping services in the market niches in which it operates. The Commission is therefore seeking participants' views on this matter.</i></p> <p>The Government owned TT-Line has a different cost structure and objectives from the pure RORO operators. This may distort the Bass Strait market.</p> <p>Note that the type of vessel operated by TT-Line (ROPAX) goes hand in hand with the requirements of passengers and time-sensitive freight.</p> <p>Without this service some parts of the market would have a reduced service.</p>
44	123	Coastal shipping regulation 3 rd paragraph	<p><i>They [coastal shipping regulations] also increase costs of providing domestic coastal services and reduce the level of competition in Australia's coastal trading network.</i></p> <p>Note that the coastal shipping regulations have had no cost impact on the Bass Strait RORO trade and there has been no reduction in competition in the Bass Strait RORO trade.</p>

45	124	<p>Coastal shipping regulation</p> <p>2nd bullet point</p>	<p><i>Australian vessels carrying containerised cargo across Bass Strait (all three shipping lines) are entitled to the company tax exemption and accelerated depreciation. However, the extent to which these benefits pass through to freight rates is unclear.</i></p> <p>Note that a shipping operator can claim either company tax exemption or accelerated depreciation per vessel and only if the shipping operator qualifies as an Australian operator.</p> <p>Tax incentives were intended to encourage investment by Australian companies into Australian shipping, not to reduce freight rates.</p>
46	125	<p>Coastal shipping regulation</p> <p>3rd paragraph</p>	<p><i>In addition, the tax incentives are likely to cost the Australian Government around \$70 million a year in forgone revenue (Swan 2012)...</i></p> <p>It should be noted that the company tax exemption and accelerated depreciation represent a deferral of revenue for the Australian Government rather than foregone revenue. For example, income tax exemption means that the liability to pay tax is passed from the company to the shareholder in receipt of unfranked dividends.</p> <p>The intention of these two tax deferral mechanisms was to encourage investment in Australian shipping leading to an increase in the 'maritime cluster', that is industries supporting and supplying the Australian maritime industry.</p>
47	127	<p>Coastal shipping regulation</p> <p>2nd paragraph</p>	<p><i>It would be appropriate for the review of coastal shipping regulation to commence as soon as possible, ...</i></p> <p>We recommend that the review extend beyond coastal shipping regulation to include consideration of other factors that have had an adverse effect on Australia's maritime industry. For example Customs' decision to 'import' foreign vessels that were undertaking repairs in Australia.</p>

48	127	<p>Key features of Tasmanian ports</p> <p>1st paragraph</p>	<p><i>Port costs constitute a relatively small share of the supply chain cost – around 5 per cent (Aurecon 2013c) – and a small share of the cost of shipping across Bass Strait...</i></p> <p>This comment appears to relate to the port costs directly related to vessel calls such as tonnage, towage and pilotage. There are other port costs that should be considered.</p> <p>In the case of the Bass Strait RORO operators, the port authorities are also landlords with rent making up a portion of the fixed cost for dedicated terminal facilities.</p> <p>Government owned port authorities can be used as revenue raisers. For example, the \$75 million annual port licence fee imposed by the Port of Melbourne Corporation.</p> <p>Wharfage is a charge levied by the ports on cargo. It varies with volume and type of cargo. In the majority of cases wharfage is charged to the ship operator and recovered from shippers through freight rates. (Wharfage on King Island is charged directly to the shipper).</p>
49	129	<p>Key features of Tasmanian ports</p> <p>Table 4.4 Characteristics of Tasmania’s northern ports</p>	<p>Operators at Devonport include Cement Australia and Origin Energy as well as SeaRoad and TT-Line. The east bank is for non-bulk cargo and passengers.</p> <p>Operators at Burnie include bulk ships as well as Toll ANL.</p> <p>Bell Bay is used by bulk ships as well as the monthly Swire Shipping service.</p> <p>Under ‘Available terminal space’ TT-Line and SeaRoad are shown with 2ha and 7ha respectively. These areas are dedicated to those services, not ‘available’</p>
50	131	<p>Key features of Tasmanian ports</p> <p>2nd paragraph</p>	<p><i>The Bass Strait RORO services operate their own terminals at the northern ports, while other terminals are operated on a ‘community access’ basis.</i></p> <p>This should read “The Bass Strait RORO and ROPAX services operate their own dedicated terminals at the northern ports, while other facilities are operated on a ‘common user’ basis.”</p> <p>It should also be noted that both SeaRoad and Toll have provided and funded their own infrastructure on terminals leased from TasPorts.</p>

51	135	<p>Adequacy of port infrastructure</p> <p>Box 4.7 Port infrastructure at King and Flinders Islands</p>	<p><i>In 2012-13, 92 ships called at King Island, with a freight task of around 8110 TEU (TasPorts, sub. 30, p. 2).</i></p> <p>This implies that 92 different ships called at King Island during 2012-13. We believe that this should read “In 2012-13, there were 92 ship calls at King Island,”</p>
52	136	<p>Adequacy of port infrastructure</p> <p>Box 4.8 FLCT port recommendations</p>	<p><i>Formalise a long-term port strategy that recognises Burnie Port as Tasmania’s principal domestic container port in the medium to long term, based on potential for deep water expansion, closest sea travel time to Melbourne, the ability to develop at comparatively lower cost and alignment with land transport networks.</i></p> <p>We believe that this will add cost to the freight task because it is the furthest northern port from the major population centres.</p> <p>Note that Burnie is not an all-weather port.</p>
53	136	<p>Port ownership</p> <p>2nd paragraph</p>	<p><i>Ports have also generally adopted a landlord model, separating ownership of the port from the operation of services such as stevedoring and towage.</i></p> <p>In Tasmania, TasPorts provide towage and pilotage services as well as ownership of the ports. There is no competition for these services in Tasmania.</p>
54	138	<p>Port ownership</p> <p>Last paragraph</p>	<p><i>It would also be appropriate for TasPorts to explore alternative funding models for infrastructure. Privatisation, long term leases and targeted divestment of port assets are options that could be considered.</i></p> <p>Note that long term leases are already in place with both SeaRoad and Toll ANL.</p>
55	140	<p>Facilitating a more efficient future for Tasmanian ports</p> <p>Box 4.9 Tasmania’s port development plan</p>	<p><i>Tasmania’s port strategy is aimed at developing a single port system of specialised terminals (one northern port with three terminals at Bell Bay, Devonport and Burnie).</i></p> <p>It is unknown if the port development plan was prepared after consultation with any of the port users. SeaRoad was certainly not consulted before the plan was released.</p>

56	142	Port of Melbourne licence fee Table 4.7 Changes to container freight charges	We propose that the table be rename “Changes to container wharfage charges” and that an additional column be added with actual charges for 1 July 2012, as follows:
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Table 4.7 **Changes to container wharfage charges**

<i>Containerised</i>	<i>Tariff 1 July 2011, excluding GST¹</i>	<i>Estimated tariff with PLF impact, excluding GST¹</i>	<i>Tariff 1 July 2012, excluding GST²</i>
	(\$/TEU)	(\$/TEU)	(\$/TEU)
Full	40.10	60.15	61.20
Full Bass Strait	41.80	62.70	63.60
Empty	10.00	15.00	15.20
Transshipment	50 per cent of published rate	50 per cent of published rate	35 per cent of published rate

Source: ¹ Infrastructure Australia (2012b)

Source: ² Port of Melbourne Corporation Reference Tariff Schedule Effective 1 July 2012