

Tasmanian Shipping and Freight
Productivity Commission
GPO Box 1428
Canberra City ACT 2601

tasmanian.shipping@pc.gov.au

Level 1, Cornwall Square Transit
12-16 St John Street, Launceston
PO Box 603, Launceston TAS 7250
T 03 6380 6800 F 03 6331 9400
E admin@northerntasmania.org.au
ABN 13 585 842 417
www.northerntasmania.org.au

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RE: SUBMISSION ON TASMANIAN SHIPPING AND FREIGHT INQUIRY

Dear Productivity Commission,

Northern Tasmania Development (NTD) is a regional development organisation that was established in December 1992 to develop, and sustainably grow, the economy of the Northern Region of Tasmania. Our members are the eight Northern Tasmanian Councils within the region - Break O' Day, Dorset, Flinders, George Town, Launceston City, Meander Valley, Northern Midlands and West Tamar. The current priorities of NTD are based around strategic planning, regional land-use planning, regional transport and infrastructure planning, and local government resource sharing initiatives.

We believe that competitive and cost effective freight connectivity is an essential enabler for the Tasmanian economy particular for this Region's exporting manufacturers and agricultural producers. Of particular concern to our members is the uncertainty currently surrounding Tasmania's freight connections to national and international markets and lack of clarity around port infrastructure priorities.

In addition, we believe that the current contribution and future potential of the northern Tasmanian economy seems absent in policy discussions. Freight support measures and infrastructure planning must account for the substantial existing exporting businesses in the region as well as future growth options including the dairy industry, food and beverage manufacturers and new investments that will unlock value in the forestry industry plus the inevitable productivity gains arising from new irrigation networks.

This submission highlights our suggestions that should be addressed in the Productivity Commission's investigations and subsequent recommendations. In essence, we implore the Productivity to:

1. Adequately account for the significance of the Bell Bay Industrial Estate (and related businesses) to the Tasmanian and national economy;
2. Recognise the importance of a direct export and import container services to the future of the Tasmanian economy;
3. Protect Tasmania's future freight capacity by progressing the multi-stage Bell Bay Intermodal Expansion, and
4. Properly forecast and consider the social and economic cost and benefits of any policy recommendations on a national, regional and local level.

Bell Bay – Tasmania’s Largest Industrial Cluster

The Bell Bay Industrial Estate is Tasmania’s most significant industrial estate and cluster. Research conducted for the Bell Bay Industry Group by Tasmanian consultancy IMC Link in 2011 demonstrated that the Bell Bay Industrial Precinct accounted for 58% of Tasmania’s manufacturing industry and 35% of Tasmania’s total exports. The 2000 hectare estate houses a range of enterprises that collectively have the combined direct, indirect and induced effects of (IMC, 2011):

- \$6,544 million in the value of output across all sectors;
- 23,623 full-time or part time jobs (3 498 directly);
- \$1,261 million wages income paid to Tasmanians; and
- \$2,754.67 million income to state GSP which accounts for 12.53% of the total GSP impacts for Tasmania.

These figures are backed up by numerous economic studies, including the soon-to-be-released Greater Launceston Plan (funded with the assistance of the Australian Government) that clearly show industry at Bell Bay has a dramatic impact on the regional economy of northern Tasmania.

Therefore it is with concern that the recently released Tasmanian Freight Logistics Coordination Team (FLCT) reports focus heavily on the Hobart-Burnie freight corridor to the exclusion of the existing freight capacity and future economic potential of the northern industrial estate. Whilst the Hobart-Burnie freight corridor is vitally important for the movement of people and domestic freight longitudinally across Tasmania, adequate reference must also be given to adjacent areas of strategic economic importance particularly areas with high levels of export activity.

The FLTC consultancy from Aurecon (Part 1, page 7) show that export businesses at Bell Bay have been disproportionately impacted by recent changes to Tasmania’s international freight connectivity. Aurecon state that:

Exporters from Bell Bay face significantly higher costs following the cessation of direct shipping. Goods must be transported from Bell Bay to either Devonport or Burnie and empty containers must be relocated to Bell Bay. These steps add to complexity and cost. We estimate the additional cost to be \$1,000-\$1,300 more per TEU.

The quantum and significance of this negative impact on producers at Bell Bay will inevitably impede the Tasmanian economy and our capacity to contribute to national economic prosperity. Measures recommended by the Productivity Commission need to properly account for Bell Bay given the current economic contribution of this area and the potential for future value-adding activities such as maritime manufacturing and forest product processing.

With the Tasmanian economy becoming increasingly reliant on Commonwealth and Tasmanian Government spending, it makes no sense to put this State’s major wealth generating exporters at risk by ignoring the future capacity and connectivity of Bell Bay and related enterprises.

International Connections – Tasmania’s Future

Tasmania has a long and proud history as a trading economy. Our state is founded on agriculture, mining and manufacturing exports. The recent reduction in cost-competitive direct connections with national and international trading partners is limiting our options to remain a predominantly open economy that can positively contribute to the nation’s balance of trade.

A number of national media and political commentators have recently proliferated views that Tasmania is on an inevitable downward spiral towards the economic doldrums. Our view is that effective international trade connections and targeted investment in trade-enabling infrastructure can help arrest this slide. We question the inevitability of Tasmania’s current trajectory away from our export heritage towards an inwardly focused import economy.

As such, NTD supports the efforts of the Tasmanian Exporters Group (TEG) to re-establish a viable international connection to and from Tasmania utilising the Port of Bell Bay. As a member of the TEG, we strongly encourage the Productivity Commission to examine the TEG’s proposals relating to direct imports and exports. We recommend that the direct import/export model should be compared and contrasted with suggestions to expand the existing Tasmanian Freight Equalisation Scheme to include exports.

In assessing the case for transitional support for a direct service, it is worth noting that following the withdrawal of international shipping in 2011, the cost impacts have been substantial. This is demonstrated by the government response. After the cessation of international container shipping to and from Tasmania, the Australian Government made payments to exporters in March 2012 totalling \$14.5 million primarily to offset the extra costs incurred consequential to the loss of international container shipping. A total of 36 exporters shared in the distribution of those funds. There have been further suggestions by the Tasmania Government to continue this payment scheme at similar levels.

In comparison, the TEG proposal for transitional funding of \$33 million over three years to support a direct import/export service is favourable in cost and benefits compared to ongoing and unsustainable direct payments to affected exporters. A direct shipping model has added benefits including the ability to supply empty containers into Tasmania as well as being an alternative route for imported consumer and industrial goods. This model will increase the competitive pressures through enhanced contestability of international cargoes.

Essential to the viability of international connections for Tasmania is the modification of the current coastal shipping regulations that limit the ability of international vessels to carrying of domestic cargo. The current regulatory framework restricts the capacity of Tasmania to attract a viable import/export service as international carriers need to supplement volumes in and out of Tasmania with additional domestic cargoes. NTD strongly encourages the Productivity Commission to seek advice from international shipping companies regarding the total freight opportunities in Tasmania in conjunction with shipping regulation reform.

Bell Bay – Expansion and Improvement

The withdrawal of container services from the Port of Bell Bay in 2011 increased community and industry concerns about the future role of the Port of Bell Bay. This situation has been exacerbated by the Tasmanian Government’s inability to articulate and implement a clear port strategy.

In response, NTD commissioned an independent report to examine the future role of the Port of Bell Bay in Tasmania's port system. The MMC report (formerly IMC Link), titled *Containerised Freight Specialisation at the Port of Bell Bay: A Cost-Benefit Analysis (2012)* utilised publicly available data about Tasmania's current and projected port capacity. Information was also collected through interviews with industry representatives.

The report found that even moderate growth forecasts would see current Ports reaching capacity within the next decade. Therefore, given the long timeframes needed to progress port infrastructure upgrades, the time to plan and progress phased port investments is now or Tasmania will lose trade opportunities. The report also questioned where infrastructure upgrades should occur given other factors such as land availability, adjacent industrial uses and other land use issues and conflicts. Bell Bay was determined to be the preferential location for future expansion of container freight capacity.

Of concern to NTD is the conflicting sentiments in recent reports, particularly from the FLCT, that argue subdued economic and freight growth reduce the need for the utilisation of existing capacity at Bell Bay, let alone any major expansion across Tasmania's northern port system. Following from the Deegan Report in 2012, FLCT reports also raised doubt about the proposed intermodal expansion at Bell Bay that has been the subject of multiple Infrastructure Australia funding applications from the Tasmanian Government.

NTD believes that the economic growth forecasts of around 1.7% per annum that have been used by the FLTC to cast doubt on port expansions are overly pessimistic, especially in light of Tasmania's obvious comparative advantages and the rise of key trading partner economies in the Asian region such as Indonesia.

If pessimistic projections are the sole basis for infrastructure investments, there is a significant down-side risk to underestimating freight capacity. Such underestimation will result in economic constraints and impediments to the state. Long-term major infrastructure investment planning must be driven by a view to accommodating for Tasmania's likely areas of economic growth and available options. In particular, infrastructure should be focused on areas of export activity and wealth generation such as Northern Tasmania.

Policy Implications – Costs and Benefits

NTD is concerned that, whilst the recent FLCT studies and Productivity Commission Inquiry may produce an elegant series of recommendations from a logistics or theory viewpoint, there is a risk that the economic and social consequences of the proposed recommendations will not be adequately explored.

As an example, the FLTC's Discussion Paper talks repeatedly about infrastructure funding being directed to a Hobart-Burnie freight corridor and suggests the rationalisation of the number of ports in Tasmania. However the economic and thus social implications for the north of Tasmania from such a conclusion would be significant. When coupled with the impacts of market and policy driven changes in the forestry industry, the 'solution' may only add to the problem and the resultant burden on taxpayers.

We also understand that the Productivity Commission is concerned with national-level implications. But the regional and localised impacts that should be considered in policy discussions. Therefore, the Productivity Commission needs to be aware of unique circumstances and challenges within the Tasmanian economy.

For instance Flinders Island represents a highly productive agricultural asset and developing tourism destination. At present, the Island economy is constrained by distance to markets and a lack of transport options. These disadvantages are even more acute than for the Tasmanian economy more generally. The current exclusion of air freight from the TFES does little to encourage on-island value adding or employment growth in niche product development for remote communities like Flinders Island. Policy measures suggested by the Productivity Commission need to focus on enhancing economic inclusion and encouraging investment in value-adding of primary products within regional areas like Flinders Island.

The Productivity Commission must ensure that economic and social analysis be undertaken on any recommendations provided to government to ensure that the broader implications are understood, rather than recommendation being limited to freight task efficiency or administrative neatness. Policy decisions need to be considered from the perspective of the welfare of all Tasmanians and our capacity to contribute to the national economy.

In conclusion, we welcome this opportunity to provide a submission to the Inquiry. It is clear that there are challenges for Tasmania if we are to maintain an open economy that is able to respond to opportunities for growth. A consistent and predictable regulatory framework with clear government strategies is essential for investment and enhanced private sector involvement in our freight and logistics systems. Tasmania's recent history demonstrates confused and conflicting infrastructure strategies coupled with limited competition that has stifled innovation and private sector investment. We need to reduce the idiosyncratic risks associated with investing to enable long-term investment decisions by the private sector.

Therefore, we believe that there are obvious measures that will re-establish confidence and certainty in our freight structures and drive economic growth. International connections must be encouraged through transitional support as proposed by the TEG. We must recognise existing industry clusters, particularly Bell Bay, and provide adequate infrastructure planning and funding to maintain economic potential in key industrial areas. Importantly, any freight recommendations need to be examined in the context of the relative social and economic impacts to help ensure improved competition, maximum economic potential and efficiency coupled with the greatest possible benefit to our communities.

Yours sincerely



Derek Le Marchant
EXECUTIVE OFFICER