

Productivity Commission – Tasmanian Freight and Shipping Inquiry Tasports Response to Draft Report

DRAFT Recommendation 13

(chapter 4)

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.

Tasmanian Ports (Tasports) is a commercially viable enterprise managed according to sound commercial practises and consistent with our obligations under the Tasmanian Ports Corporation Act, our shareholders Statement of Expectations and Corporations Law.

The Auditor General’s review of the amalgamation process and its outcomes (released in 2013) concluded that “The strategic benefits envisaged by the Meyrick Report have been largely achieved with planning and reporting at a Tasports’ level and input to state-wide planning and policy” and “...Tasports’ performance has been reasonable in the context of the economic decline and other structural changes to the Tasmanian economy and would probably have been worse if no amalgamation had occurred”.

Our recent financial performance is a direct result of a shareholder endorsed strategy to increase investment in the remediation and renewal of wharf assets and infrastructure. Since 2010 Tasports has increased its expenditure in maintenance of priority assets by 166% and this will continue in the short to medium term.

We wish to highlight that long-term leases are a key feature of port operations in Tasmania. In fact, all our container terminal operators – Toll, SeaRoad and TT Line – all operate on these instruments in Burnie and Devonport. Similarly, local privatisation within port areas is a feature with examples including the Bell Bay Aluminium terminal in Bell Bay and the Nystar terminal in Hobart. At the same time, the recently announced alternate-use development plan at Macquarie No.1 in Hobart will be supported by a long-term lease to the VOS Group.

Targeted divestment of port assets has also occurred since amalgamation with the sale of Hobart Airport, the transfer-for-sale of port properties including Princess Wharf No.2, the Elizabeth Street Pier and the divestment of our equity share in CPOL Stevedoring.

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The Commission endorses the need for a comprehensive, long term integrated freight strategy for Tasmania. As the Australian Government will retain a role in funding Tasmanian infrastructure investments, it is appropriate that it (including through Infrastructure Australia) have a role in developing that strategy.

In developing the strategy, there should be broad consultation between industry, all levels of government, and the community more generally. A benefit-cost framework should be applied that identifies the most efficient use of investment capital and which clearly identifies the net benefits or trade-offs arising from community service initiatives or region-specific development objectives. As a matter of urgency, the strategy should:

- identify Tasmania's likely future freight infrastructure requirements across all modes — sea, road, rail and air.
- address port developments, including specialisation or rationalisation of existing infrastructure
- address the long term role of rail in Tasmania given the high degree of substitutability with road transport
- ensure that the objectives of government business enterprises for ports, sea freight and rail are consistent with commercial sustainability.

Tasports' 30 year Port Plan will be released in first half of 2014 and follows the '*Ports Australia-Master Planning 2013*' strategy development recommendations as endorsed by COAG.

The next step in our process is to consult with key stakeholders of government, industry and communities around the initial recommendations and content of the 30 year Port Plan. Importantly, comprehensive analysis and research has been undertaken to ensure that the recommendations are informed, rational and cost-effective. Tasports supports the view that an integrated freight strategy is essential for the state and is confident that the 30 year plan will provide a well-informed foundation to build upon.

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

Port specialisation allows for specific, complete infrastructure sets in one port to maximise utilisation, minimise multiple handling of products as well as duplication of infrastructure.

Tasmanian ports handle 99% of all freight into and from Tasmania. While the majority of the public discussion revolves around container freight, the ports have a requirement to accommodate multiple commodity types because they are the natural and cost-effective gateways to market and support the lowest possible inland transport cost and end-to-end supply chain cost. The specialisation

approach aims to limit duplicating infrastructure at multiple ports, while still maintaining viable and economic supply chains from point-of-origin to destination market.

Where a commodity group can achieve an economy of scale, as in the container segment, the port specialisation will be directed towards a single port set of infrastructure for that commodity. In the short term, this approach must also be cognisant of the commercial arrangements that some industry operators have in place.

Information Request 7

(chapter 4)

Part 1: To what extent is uniform pricing distorting decisions in regards to activities and investment at Tasmanian ports?

The state wide pricing strategy was created to remove the existing inconsistencies and aims to contribute to a sustainable business model that supports increased investment in infrastructure maintenance and capital.

While a state wide pricing tariff has been adopted this does not restrict Tasports in negotiating confidential contractual arrangements with key customers and such arrangements do exist.

In relation to decisions regarding activities and investment across the ports, price is only one aspect of this decision making process and is not directly related to investment decisions on a port by port basis. Investment decisions are assessed on a case by case basis for projects with sound commercial footing and proven return on investment.

Tasports has facilitated private investment into key activities and infrastructure, the latest example being the tri-partite agreement between public and private industry within the port of Burnie. This agreement will see significant investment from Government, TasRail, TOLL and Tasports.

Part 2: To what extent does the current pricing strategy of Tasports reflect efficient costs of providing the port infrastructure and services?

Over the last four years Tasports has worked proactively with customers to create an incremental glide path for pricing adjustments across the ports.

The pricing review undertaken in 2010 indicated that a multi-year glide path was required to enable Tasports to operate a more sustainable business model that was comparatively benchmarked to other Australian ports with due regard to the economies of scale experienced at the different ports. It is important to note in respect of efficient pricing that as previously mentioned, Tasports does have carriage of a number of community based assets which are non-commercial in nature and therefore do not generate sustainable revenue to cover essential operating costs. However it is imperative that they are maintained for the safety of the public as well as to assist industries such as tourism within the state.

Within the next four years Tasports will undertake the major maintenance and re-investment work for the community based assets, after this period it is envisaged that the assets and related costs for maintenance will be able to be managed with greater efficiency.

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