



13 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

Further to meeting with you and your team on 11 February 2014 we provide additional comments in respect to the above inquiry.

Competition in Bass Strait

There is substantial competition between the domestic Bass Strait operators as evidenced by the number of customers who go to tender. Tenders result in either contracts and/or volumes changing from one shipping line to another on a regular basis or an improvement in rates and/or services for the customer.

Generally speaking tenders occur once to twice a month with an estimated total annual value of \$10 - \$20 million.

Export volumes

Cargoes destined for overseas markets represent around 25% of SeaRoad's northbound volumes in full TEU.

Rates

In general SeaRoad's Bass Strait rates are set in discussion with the customer. While a general tariff exists, the majority of freight arrangements are agreed specifically for the customer or commodity concerned.

SeaRoad's general rate increases will apply (except where under contract) and are usually conducted annually around the 1st October. The increase is based on a review of costs, which tend to be above the Consumer Price Index (CPI) due in particular to specific cost increases, such as labour. The CPI however is used as a benchmark in the annual reviews. Some rates may be adjusted in line with market pressures (up or down) including a consideration of compatibility with specific vessel capacity.

Bass Strait shipping rates in 2012 were affected by external factors outside normal operations, being the Port of Melbourne Corporation's Port Licence Fee and carbon pricing. In SeaRoad's case this included:

Description	Increase
Port Licence Fee	3.1%
Carbon pricing	1.1%
General rate increase	3.0%
Average increase approx.	7.2%

Effect of the withdrawal of the AAA service

There has been some comment in the submissions to the Inquiry that Bass Strait shipping rates increased after the withdrawal of the AAA service from Bell Bay.

SeaRoad's existing shipping rates (non-overseas feeder rates) did not increase outside the normal annual review.

Before the AAA service ceased, SeaRoad was not a significant carrier of overseas feeder volumes controlled by overseas shipping lines apart from specific contracted work.

After the AAA service ceased, SeaRoad negotiated rates and services with the overseas lines affected by the withdrawal from Bell Bay.

Competition between Tasmanian ports

During the 1990s SeaRoad's predecessor consolidated its Tasmanian operations to one hub port in mainland Tasmania. This was at a time when the Tasmanian ports were independent of each other. Robust negotiations were held with both the Port of Launceston Authority and the Port of Devonport Authority. Competitive offers were received from both ports and Devonport was chosen as the successful bidder.

This ability to negotiate independently was lost when all the Tasmanian ports were consolidated under the one entity of TasPorts. It is our opinion that there are no longer the same competitive tensions between the Tasmanian ports because TasPorts is effectively a monopoly. Current and future negotiations will take place in this environment and it is unlikely that favourable commercial arrangements can be achieved resulting in increased costs to the shipping lines and ultimately an increase in shipping rates.

Another example of TasPorts' monopoly arrangement is in the provision of towage services. At one time SeaRoad was forced to increase its use of tugs when one of its ships had mechanical problems with a bowthruster. The competitive pressure between the two towage operators in Melbourne allowed SeaRoad to achieve a short term rate outside the general tariff. In Devonport, however, there was no ability to do the

same because TasPorts is the sole provider of towage services in Tasmania.

Dividend return vs. capital growth

The audited financial statements of SeaRoad are lodged with ASIC.

These disclose the following:

- SeaRoad acquired the Patrick Bass Strait shipping and forwarding businesses in March 2007. At that time the shareholders invested \$2 million in share capital.
- In the period to 30 September 2012 dividends of \$1.2 million have been declared.
- Total equity at 30 September 2012 of \$21.6 million included consolidated retained earnings of \$19.6 million.

Please contact me if you would like any clarification or we can assist further with the finalisation of the report.

Yours sincerely,
SeaRoad Holdings Pty Ltd

Jacqueline Jennings
Chief Financial Officer